

STAFF PAPER

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Capital Markets Advisory Committee

Project	2020 Agenda Consultation		
Paper topic	Suggestions received for potential future projects		
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Introduction

1. In Agenda Paper 4 we have set out the Board's approach to the 2020 Agenda Consultation. That consultation will include a Request for Information (RFI) which will be published in September 2020. Within that RFI, the Board proposes including a description of potential projects for inclusion in the Board's future work plan for comment by stakeholders.
2. The objective of this session is for CMAC members to help us develop the description of their suggestions for potential projects. We are not seeking a consensus view from the group at this stage.
3. In Appendix A to this paper we have noted the topics suggested by members for discussion today. Where CMAC members have provided suggested solutions or an indication of size we have included this information.
4. We have not prepared any assessment or added an analysis of the topics suggested; this is a fact-finding session with the aim of letting members describe projects in their own words. We have, however, tried to categorise the topics suggested by theme to give structure to the discussions.

Proposed approach to the discussions

5. We suggest the following agenda for the discussions:
 - (a) Discussion of suggestions for potential projects as noted in appendix A— including members reactions to topics; and
 - (b) Discussion of the financial reporting environment and other comments received, such as overall balance of the Board’s activities and comments on the agenda consultation process.

Appendix A Suggested topics—for discussion

Potential new topics to add to work plan
<i>1 Relating to cash flows:</i>
Cash flows IAS 7: the increase in right of use asset and the increase in debt are netted to zero; rents/ lease payments presented in financing. Change in debt should be investments and finance and interest / discount factor eliminated and included in operating cash flows.
Cash Flows IAS 7 Better disclosures, better connection with P&L and balance sheets
Working capital management: enhanced disclosures re short term cash flows, include factoring, supply chain/ reverse factoring; inventory in channel
Working capital financing and reverse factoring: limited disclosure is challenging. Also companies have very different cash flows with no repayment of creditors. Some use 'notional' cash flows to address. Extend more generally to all working capital financing eg inventories. Whose inventory is it if really no alternative customers?
Cash flow IFRS 7 : Non-cash transactions disclosures could be improved
<i>2 On a theme of intangibles:</i>
Intangibles: thorough research is needed for this difficult topic re definition, characteristics, recognition and measurement
Capital maintenance expense/ revenue investment includes expenses such as R&D, advertising, customer acquisition costs and IT costs. Combines maintenance expense and growth spend. Disclose so investors can see materiality to profits. Analysis between maintenance and growth not necessary. Also addresses concerns re not all intangibles recognised on balance sheet.

Capital maintenance expense: differentiate between ongoing maintenance and expansion of the business

3 Segment disclosures:

Segment analysis: more disclosure of segment assets and equity so we can get a better sense of returns.

Financing subsidiary within a manufacturing operation: large, bespoke manufacturers like Bombardier, Boeing, have a financing arm. The financial statements of the financing arm are consolidated with those of the manufacturing operations. Ratios can be difficult to interpret because of consolidating financing sub's balance sheet.

Segments: have a minimum set of KPIs to allow basic analysis such as margins, turnovers

Segments IFRS 8: PFS is underway and should provide better subtotal definitions in P&L. The outcome of this project should be used to improve IFRS 8. Reconcile with IFRS measures at segment level to improve comparability. Other improvements.

Segment reporting: is an ongoing problem and is probably worth a project on its own if not captured in performance reporting and DI. Suggests concerns about discontinued operations reporting is a broader aspect of segment reporting.

Segment reporting: investors require sufficient detail to calculate ROC by segments. If not possible, eg due to shared corporate HQ, then like to see financial data through management's eyes. Would help investors understand capital allocation and value business.

4 OCI

OCI presentation and recycling of OCI: separating items to present as recycled or revalued, not recycled and non-recycled. Recycled affect current P&L; revalued future P&L.

OCI presentation and recycling of OCI: Not all OCI revaluations are recycled eg pension liability, own credit and equity instruments should be included

5 Other suggested topics:

CRUF quick wins will be updated soon

Crypto assets: as they become more prevalent will need to address. Major research needed.

Foreign currency: largely fine possibly with exception of determination of functional currency. With limited disclosure requirements often difficult to understand what a company has put where and why in the income and particularly cash flow statements or what hedges are in place. analysis of the effect of changing rates is hindered.

Negative interest rates and currency rejection in absence hyperinflation: research into negative rates, use of non-regular currencies; currency and yield anomalies have a profound effect. Research / exploration needed. Links to crypto and pension benefits dependent on returns.

Returns: encouraging disclosure of returns metrics with consistent numerator and denominator i.e. the numerator is either an income statement or cash flow statement item and the denominator is balance sheet derived.

Stock options: shares bought back to replace those granted should go through income statement. Share bought back to replace those granted should go through income statement.

Tax planning: disclosure of tax planning and structure to understand tenure and sustainability

Suggestions relating to existing or planned projects

Aspects of goodwill and IFRS 3:

Acquired Operations by analogy with IFRS 5: Extend requirements to include acquired businesses separately as for discontinued operations. IFRS 5 would encompass all changes in consolidated structures. Extend IFRS 5 to acquired businesses

Business Combinations IFRS 3 User community hope current review will provide improvements requested by users for several years

Related to IFRS 5 Discontinued Operations:

Discontinued Operations: fundamental problems lead to confusion. Requirements are completely wrong and confusing. Deconsolidate on exit with disclosure beforehand.

Discontinued Operations IFRS 5: subs that are sold may be presented as a single line in P&L and balance sheet. Use a column method to show line by line.

Discontinued Operations IFRS 5: Need a proper view of operations being sold with contributions to the financial statements not satisfactory. Contributions represented on a single line, while company still has control. How does P&L and balance sheet interconnect with cash flow. Assets no longer amortised

Discontinued Operations: having a significant part of operations disclosed as a single line is not helpful. Cash flow may be on same basis or as whole business

Equity method research project:

Equity method: In order to determine which affiliates are integral or not, a fundamental review is inevitable. Also discuss 20% threshold as well as relevance of profits from the equity method.

Management commentary:

Disclosure initiative: need insight re performance position, cash flow prospects, risk exposures.

Disclosure required of company specific known or likely future events affecting revenue or earnings: such as patent expirations. Important to know about revenue and profit drivers. Requires disclosure.

Risk, Fundamental risk disclosures: eg around potential operating scenarios relating to revenues, major expense categories, and value of material operating assets.

Emissions allowance: there is a focus on non-financial climate disclosures however financial disclosures are often missing or inconsistent

Consideration for future Post-implementation Reviews:

Leases IFRS 16 options to extend a lease: options may be included in the asset and liability. Should be about risk, not possibilities. Option does not extend risk and should be excluded; noted as a disclosure if substantial.

IFRS 9 review: stage 2 category esp not comparable

Input on the balance of activities

Comments on balance generally: Large projects should be avoided to encourage a consolidation of existing requirements and incremental steps of improvement as well as ensuring consistent application. Complete existing projects. PIRS may be significant. Period of relative calm appreciated

Taxonomy and electronic filing: lost opportunity re drill down