

IASB® Investor Update

Our newsletter for the investment community

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The IASB's Investor Update highlights market-relevant accounting topics that could affect the companies that investors follow. It also shares with investors information on the IASB's standard-setting activities and insights from our ongoing dialogue with the investment community. We invite investors seeking further detail on accounting proposals and current requirements to contact us.

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Editors' welcome

Happy holidays! We can hardly believe that another year has gone by. Last December we celebrated the launch of our [Investors in Financial Reporting](#) programme. We are pleased to say this month we mark the first anniversary of this programme with the addition of four new organisations. Read more [here](#) and on pages 2 and 3 of this newsletter.

In December 2014 we also discussed proposed requirements for a reconciliation of changes in financing activities. A year later and the IASB will soon be publishing amendments to help investors better understand changes in debt, especially non-cash changes that you can't otherwise find in the statement of cash flows.

This is also a good opportunity to thank all of you who have shared your time to provide feedback to our technical teams this year. We would like to especially thank the many investors and analysts who took part in our discussions about issues arising from implementing the new financial instruments requirements before the changes to accounting for new insurance contracts come into effect, and the potential knock-on effects it may have on your investment analysis.

And finally, on a personal note, we are proud to say that this year's IFRS Foundation greetings card (featured below) has been created by Fred's daughter, Amalia. We hope you enjoy this as much as we do and have a very happy holiday season.

Barbara and Fred

Season's Greetings from the IFRS Foundation and the IASB



To celebrate the festive season, we asked the children and grandchildren of the IFRS Foundation staff to design a greetings card. The winning entry comes from seven-year-old Amalia, daughter of Fred Nieto, Investor Education Manager

The IFRS Foundation is an independent, not-for-profit organisation working in the public interest. One of the principal objectives of the IFRS Foundation is to develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards (IFRS) through its standard-setting body, the International Accounting Standards Board (IASB). This newsletter has been prepared by the staff of the IFRS Foundation and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRS do not purport to set out acceptable or unacceptable application of IFRS. For more information see www.ifrs.org.

A brief look at our *Investors in Financial Reporting* programme

In December 2014 the IASB launched the [Investors in Financial Reporting](#) programme. In anticipation of its one-year anniversary we asked financial journalist Liz Fisher to look into its impact and effects on some of the organisations that originally joined.

It's good to talk

The *Investors in Financial Reporting* programme was established to increase the interaction between the IASB and the buy-side investor community. Now that almost a year has passed since its launch, the IASB and investors both assess its impact.

Stakeholder feedback is one of the most essential ingredients of the standard-setting process; Standards are shaped by it and projects have, on occasion, changed direction because of it. The IASB goes to considerable lengths to consult with its constituents in a range of ways, from the formal Discussion Paper and Exposure Draft process to informal conversations, open round-table discussions and detailed field testing.

Some sections of the stakeholder community, though, have always been easier to reach—and more willing to provide input into the standard-setting process—than others. Historically, preparers have always been closely engaged with the IASB but generally users less so—and of the user community, the buy-side (asset managers and owners) have been hardest to reach of all.

The IASB, along with accounting standard-setters around the world, has always actively sought out the views of buy-side and sell-side investment professionals, but with mixed success; it has generally been the case that most of the input received has been from sell-side analysts. In December 2014, the IASB concentrated its efforts with the launch of its *Investors in Financial Reporting* programme, with the intention, as IASB member Pat Finnegan puts it, to 'pull the people from the side-lines into the debate'.

The launch of the *Investors in Financial Reporting* programme in 2014

The aim of the programme is to increase the IASB's interaction with the buy-side community in particular and to make that interaction more effective, in order to make sure that International Financial Reporting Standards (IFRS) meets the information needs of investors around the world. Ten investment firms signed up to the programme in its early stages and a further four joined in October this year.

Fourteen firms are now signed up to the programme:

Participants in the launch of the programme	
Allianz Global Investors	Henderson Global Investors
APG Asset Management	Hermes Investment Management
AustralianSuper	Nomura Asset Management
BlackRock	PGGM Investments
Fidelity Worldwide Investment	UniSuper

New joiners to the programme	
Aberdeen Asset Management	Insight Investment
Caisse de dépôt et placement du Québec	Ontario Teachers' Pension Plan

Those that sign up to the programme make a series of commitments:

- senior representatives from the firm regularly meet with Board members or senior IASB staff to discuss relevant issues;
- the firms provide executive-level support for their participation in the development of Standards; and
- they provide a point of contact between the firm and the IASB to allow for the efficient distribution of information.

In return, the IASB provides a dedicated Board member and focussed investor education sessions.

Hurdles to engagement

There are many reasons why the buy-side analyst community has not always contributed fully to the standard-setting debate in the past; time pressure is a significant barrier, as is the fact that engagement with standard-setters is a cost without direct associated revenue. But there are other hurdles. Jed Wrigley, Director of Accounting and Valuation at Fidelity Worldwide Investment, one of the firms to sign up to the programme, says that the standard-setting process itself can be frustrating for some users:

You're engaging in a debate about something that won't be implemented for three years. And while users can engage at a conceptual level and on the important issues at an individual Standard level, you can rapidly find yourself getting into the minutiae of Standard-setting, which is only of interest to the most enthusiastic of preparers.

Investors in Financial Reporting programme continued...

Gunnar Miller, Managing Director at Allianz Global Investors, another participant, puts it slightly differently: 'It's frustrating because the process of standard-setting is often more about the footnotes than it is about the Standard itself'.

Both the IASB and the investment firms involved in the programme agree, though, that a closer relationship would benefit both. The Statement of Shared Beliefs, considered central to the programme, makes the point that high-quality, transparent financial reporting is fundamental to building trust in the capital market and to making investment decisions. In other words, the efficient running of capital markets should be seen as part of the day job of any responsible investor.

'One of the reasons we signed up was because it is in the interest of our investors to have good quality company reports,' says Jed Wrigley. 'The greater the user involvement, the greater confidence users can have in the standard-setting process, which means that the final Standards are of better quality from a shareholder perspective.'

In-depth conversations

The IASB has seen more detailed input from investors as a result of the programme. Its access to the buy-side analyst community has 'greatly improved,' says IASB member Stephen Cooper, as has the quality of the debate and the rate of formal responses from the buy-side community to consultations. He adds that he has been surprised at the diversity of views among the analyst community: 'Some are concerned about volatility, for example, while others say that volatility isn't a problem as long as they can explain it'.

The most welcome benefit, though, has been the opportunity to educate and explain the Board's reasoning and approach, and there have been occasions when an analyst has changed their view on a proposed change to a Standard after discussion with the IASB. 'We want them to better understand the proposed changes to Standards,' explains Barbara Davidson, Principal, Investor Liaison at the IASB. 'That way there is less of a knee-jerk reaction to our proposals, and more of an in-depth conversation.'

Pat Finnegan agrees with this opinion:

The more sunlight we can shine on the Standards, the better. As a Board we have undertaken extraordinary change, such as bringing operating leases onto the balance sheet, by raising awareness and we need to maintain that. The world is changing rapidly and five years from now, accounts will look very different. Firms need to be aware of what's going on. If you're not up to speed, it will cost you.

Jed Wrigley agrees that there is 'a significant benefit there for buy-side analysts to engage', particularly when a Standard is likely to have an impact on specific sectors. 'You get detailed knowledge out of having that debate with the IASB. It tells you something of the economics of the sector which goes beyond what you can see elsewhere'

Gunnar Miller also believes in this collaboration. He says:

Things are definitely moving in the right direction. It has been felt in the past that standard-setters are tone deaf to what users think and feel, and that their pronouncements come down from high on stone tablets. This programme brings a real-world connection between standard-setters and analysts and if the result is more consensual, better Standards, it has done the job.

The IASB Investor team thanks Liz for writing this article and Gunnar and Jed for their contributions.

To read more about the programme click [here](#).

For the 'Statement of Shared Beliefs' click [here](#)

Investors in Financial Reporting—a year in review

The IASB investor engagement team is proud to say that since the programme's launch we have held numerous outreach activities with the organisations involved in this initiative. Topics have included:

- the proposed reconciliation of changes in financing liabilities;
- the use of P&L versus other comprehensive income;
- the use and meaning of 'prudence' in standard-setting;
- possible deferral of the effective date of IFRS 9 *Financial Instruments* for the insurance industry;
- accounting for changes in accounting estimates and policies; and
- accounting for rate-regulated activities.

We have also held one-on-one and group education seminars with a focus on the new impairment requirements in IFRS 9 including their potential effects on regulatory capital. Topics that we plan to discuss in the future include:

- a refresher on the latest pension accounting requirements;
- the new consolidation requirements as well as accounting for joint arrangements and the related disclosures; and
- the new revenue requirements and their effects on specific sectors.

We will be organising sessions on the new Leases Standard when it is finalised in 2016.

IASB members have also met with senior representatives from the investor organisations to discuss issues in the global capital markets and economic arena.

If you are interested in learning more about joining this programme please contact us at bdavidson@ifrs.org or fnieto@ifrs.org.

We need your views

The IASB sets Standards for you, the investor. But we can't do it without your input. We need your help in understanding whether potential changes to the Standards will provide you with the information that is necessary for investment analysis. Below are the projects we are currently working on and for which we are seeking investor views.

Overview of topics and outreach timing

Topic	Anticipated outreach	
	Project Stage	H1 2016
Amendments to IFRS 4 Insurance Contracts	Exposure Draft ¹ (comment period ends February 2016)	✓
BCUCC	Research phase	✓
Income Taxes	Research phase	✓
Materiality	Practice Statement Exposure Draft (comment period ends February 2016)	✓

[Amendments to IFRS 4 Insurance Contracts](#)

In August the IASB spoke to investors about the effects of implementing the new financial instruments requirements before the new insurance contracts requirements are finalised, and whether, and how those effects should be mitigated. A [summary of investor observations](#) was presented to the IASB in September 2015. In December the IASB published an Exposure Draft of proposed amendments to IFRS 4, on which we are now seeking investor feedback. Comments are requested by mid-February 2016.

[Business Combinations under Common Control²](#)

Currently there is no specific guidance in IFRS on accounting for BCUCC. We are conducting a research project on this topic, and continue to welcome investor views to help us understand whether the information needs for such transactions mirror those needed for business combinations that are not under common control.

[Income Taxes](#)

The IASB is undertaking a research project to better understand the problems investors may face with tax information provided today, and how that information is used when making decisions. **Click [here](#) for the investor survey related to this project.**

¹ An Exposure Draft is a mandatory step in our due process. It sets out a specific proposal in the form of a proposed Standard, or amendment to an existing Standard.

² These are often referred to as BCUCC.

Materiality

In October the IASB published [draft guidance](#) to help company management determine whether information is material (referred to as the draft Practice Statement). The guidance is part of the IASB's wider initiative to improve disclosures. The deadline for [submitting comments](#) on the draft Practice Statement is 26 February 2016.

Summaries of investor feedback

Below are examples how investor views were fed back to the IASB on various projects. For more information please click [here](#).

Date	Summary of Investor Feedback Document
November 2015	Report on IFRS 2 Share-based Payment research to date
	Investor feedback on goodwill and impairment from the Post-implementation Review of IFRS 3 Business Combinations
September 2015	Feedback from investors on the different effective dates of IFRS 9 Financial Instruments and the new insurance contracts Standard
June 2015	Feedback from research project on treatment of changes in accounting policies
	Feedback from proposed amendments to IAS 7 Cash Flow Statements
May 2015	Feedback from surveys about treatment of accounting estimates
March 2015	Investor feedback on the fair value measurement of quoted investments in subsidiaries, joint ventures and associates
February 2015	Investor feedback on accounting for dynamic risk management
March 2014	Conceptual Framework: summary of investor feedback
February 2014	Insurance Contracts: investor outreach feedback slides
January 2014	Insurance Contracts: summary of investor outreach
September 2013	Leases: summary of investor outreach 2013
May 2013	Financial Reporting Disclosure—Feedback Statement

Stay up to date

Announcements

In October 2015 the IASB announced the addition of four new investors to its [Investors in Financial Reporting](#) programme. The programme, launched in December 2014, is designed to foster greater investor participation in the development of IFRS. The new participants to the programme are Aberdeen Asset Management, Caisse de dépôt et placement du Québec, Insight Investment and Ontario Teachers' Pension Plan.

In September 2015, the IASB issued an amendment to the revenue Standard, [IFRS 15 Revenue from Contracts with Customers](#), formalising [the deferral of the effective date](#) by one year to 2018. Companies applying IFRS continue to have the option to apply the Standard early.

Ongoing Work

The *Conceptual Framework for Financial Reporting* underpins IFRS and helps the IASB to develop Standards that are based on consistent concepts. In May 2015 the IASB published an Exposure Draft of proposed amendments to this framework. The comment period ended on 25 November 2015. The IASB staff are planning on taking an analysis of the comments and feedback received to the Board in the first quarter of 2016.

Reading Material for Investors

In December IASB member Sue Lloyd published the Investor Perspective article '[Mind the gap?](#)' In this article Ms Lloyd explains the IASB's proposals to amend IFRS 4 in order to address the effects of implementing the new financial instruments requirements before the new insurance contracts requirements are finalised.

In October IASB member Patrick Finnegan published the Investor Perspective article '[Back to the Future](#)'. In this article Mr Finnegan explains the IASB's 2015 Agenda Consultation and the importance of investor involvement.

Webcasts

In November CFA Institute spokesperson Sandy Peters discussed with Patrick Finnegan why the IASB needs to hear investors' views on the IASB's future agenda. This webcast entitled *IASB to Investors: Help Us Shape Financial Reporting for the Future* is available for viewing [here](#).

Register for investor alerts

Click [here](#) to register for investor email alerts to stay up to date with accounting changes, investor focused activities and other IFRS Foundation events.

Speeches and events

Hans Hoogervorst, Chairman of the IASB, delivered the following speeches:

- [Ten years on, what have we learned?](#) In November 2015 Mr Hoogervorst delivered a speech in Milan, Italy discussing ten years of IFRS in Europe.
- [Working in the public interest](#). In a speech that opened the 2015 World Standard-setters Meeting, Mr Hoogervorst discussed the importance of transparency, accountability and efficiency to financial markets and the importance of working together with standard-setters to promote these characteristics.
- [Impairment requirement will result in fundamental change](#), in which he said that the forward-looking expected loss model in the new financial instruments Standard, IFRS 9, should provide investors with better insight on loan loss risks.

Michel Prada, Chairman of the IFRS Foundation, spoke at the following forums:

- [2015 meeting of the International Forum of Accounting Standard Setters \(IFASS\) in London](#). Mr Prada's speech, entitled 'Roles and responsibilities in accounting standard-setting', focussed on the importance of the collaborative nature of standard-setting around the world, and the challenges facing IFRS.
- [Eurofi Financial Forum in Luxembourg](#). In his remarks to a session focussed on accounting challenges in the context of the EU's long-term agenda, Mr Prada outlined the three success criteria for global standards: having a clear and supported purpose; being used widely and consistently around the world; and bringing tangible benefits.

Lynne Wood, IFRS Foundation Trustee, gave the speech '[Financial reporting in the global economy: Facilitating better business and investor decision-making](#)' at the Australian Finance & Treasury Association Annual Conference in Melbourne, on the relevance of IFRS Standards and financial reporting to Treasurers.

Hans Hoogervorst and Michel Prada published [Working in the public interest: the IFRS Foundation and the IASB](#). In this document they explain how IFRS is created to bring transparency, accountability and efficiency to financial markets around the world.

Hans Hoogervorst together with IASB members Amaro Gomes, Darrel Scott and Stephen Cooper as well as other IFRS experts presented at a [Joint IFRS Foundation and INCP IFRS Conference in the Americas](#) focussing on the implementation plans for new Standards.