

Our newsletter for the investment community

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IASB Investor Update highlights market-relevant accounting topics that could affect the companies that investors follow. It also shares with investors information on the International Accounting Standard Board® 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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Editor's welcome

Is it possible to take an approach using 'non-GAAP measures' to areas outside of accounting Standards, such as summer weather in London, capital markets volatility or, more controversially, some of the current geopolitical hot potatoes (we will leave you, the reader, to fill in the blanks on that one!)? Probably not, but some investors might wish that we could.

I mention 'non-GAAP' measures, or measures outside IFRS Standards because, with the European Securities and Markets Authority (ESMA) guidance on Alternative Performance Measures effective 3 July 2016, it's the perfect time for us to revisit some educational points about IAS 1 *Presentation of Financial Statements* in this issue's 'Spotlight' article. Hans Hoogervorst, Chairman of the Board, recently [highlighted the consequences of increased use of 'non-GAAP' metrics in company reporting](#), and the associated challenges in reporting on performance in a speech at the annual conference of the European Accounting Association in Maastricht. Later in 2016 we will conduct investor outreach on projects that touch on this issue, and we are looking forward to gathering the diverse views of investors from around the world.

This issue also includes an interview with Barbara Cohen, Head of European Credit Research at BNP Paribas Investment Partners. We thank Barbara for sharing her time and perspective on financial reporting, and we believe that you will also find this interesting.

On a personal note, we are happy to celebrate this publication's second anniversary, but also sad to have said goodbye to our dear colleague Barbara Davidson. We look forward to continuing to update you on the work of the International Accounting Standards Board (the Board) and the world of IFRS Standards in the coming years!

We wish you a wonderful summer!

*All the best,
Fred*

In this issue:

- In profile—Barbara Cohen, BNP Paribas Investment Partners
- Spotlight—*The Essentials* and 'Non-IFRS' information
- We need your views
- Stay up to date

In profile



In every issue, we feature IFRS events or interviews with key stakeholders or Board members. In this issue, we interview Barbara Cohen, of BNP Paribas Investment Partners (BNPP IP), one of the new investment firms that recently joined the IASB Investors in Financial Reporting Programme.

IASB investor team: We're pleased to welcome BNPP IP to the IASB Investors in Financial Reporting Programme. Can you give us some of your thoughts on your decision to join the programme?

Barbara: We joined the programme for two main reasons: (1) educational sessions help our analysts to enhance their technical knowledge—these have been greatly appreciated by all of my team members—and (2) our participation in this programme is an excellent opportunity to express our concerns over financial reporting issues. We do want to participate in the process of improvement to IFRS [Standards].

IASB investor team: You manage a credit research team that covers many market sectors and geographies. Which parts of the financial statements do your analysts find most challenging to analyse?

Barbara: I've discussed this with my team to understand which parts are most crucial and they have emphasized first the cash-flow statement as being crucial for corporates but not useful for financials (eg banks, insurers). For many corporates, it is the statement that has the least detailed information and for financials it does not include enough useful information. Moreover, my team highlighted that the information about the cash position could be more detailed and provide information by country, by operating entity, or by segment. Overall, what could be very useful is to have the sources where the cash is generated within a group. In the financial sector we now have a few cases of insurance companies that are beginning to publish information about the remittance of cash within the group. It would be great to have this information officially presented in the financial statements.

IASB investor team: So this is information that appears sort of as a 'non-GAAP' disclosure?

Barbara: Yes, today it is a 'non-GAAP' disclosure but, cash is a financial account on its own, and information about it could be more detailed. One of the issues we have is that we discover almost every time that groups cannot upstream the cash from abroad, and they need

to spend it in that location. Sometimes we don't understand why investments are stronger in a specific country. The answer is often very easy: they have to spend it as they cannot upstream it.

Another issue discussed by my team relates to the treatment of hybrid instruments. We have a real concern about this in credit markets because ratings agencies sometimes treat those instruments as equity and other times as debt instruments; the situation of those instruments is patently not clear. In the financial sector it's easier to understand because of the regulation imposed on issuers. This regulation does not apply in the case of corporates and that can cause trouble for how we analyse a company. For instance, ratings agencies are considering that for an investment-grade company, half of its hybrid instruments can be considered equity. When the company's rating falls into a high-yield category, the instrument is considered a debt. This can be quite counterintuitive since, in reality, when a company gets closer to risking a default, the debt instruments are more likely to act like equity than be repaid like a debt. In a liquidation scenario, we would expect such an instrument to never (or extremely rarely) be repaid.

IASB investor team: That last issue is very topical for us because we have the Financial Instruments with Characteristics of Equity (FICE) project carrying out some investor outreach activities at the moment. Another topic we frequently come across relates to information about Environmental, Social and Governance (ESG). What are your thoughts on this?

Barbara: It is true that ESG is growing in the way we look at the companies, but I think that in this area it is important to keep the separation between financial information and the rest. We don't want to lose content in the accounting report and we don't want to make it less powerful. I am personally concerned that if you include more non-financial information, the relevant information will be diluted and will become less useful, less relevant. I'm not sure if I'm being clear but I think we need to prioritise improving the quality and relevance of the financial statements before adding other information or mixing subjects.

The IASB investor team thanks Barbara for taking the time to speak with us.

Barbara Cohen has been the Head of BNPP IP's European Credit Research team since 2007. Her primary responsibility includes implementing and coordinating the credit research process in Europe. She is also board member at the French Society of Financial Analysts. She was previously Deputy Head of the Fixed Income Research team for BNPP IP. Before joining BNPP IP she worked as a sell-side equity analyst at Natixis (1999–2002).

Spotlight: *The Essentials* and 'Non-IFRS' information

It seems we can't get through a week without reading an article about the use of 'non-GAAP' or 'non-IFRS' numbers. As you can imagine, we often field questions from investors who express concerns about a couple of somewhat related topics—the use of 'non-GAAP' or 'non-IFRS' numbers and the presentation of financial statements under IFRS Standards.

Surprise, surprise! EBITDA does not have to be a 'non-IFRS' number

This is one of the most surprising takeaways we hear from investors when they read [The Essentials—Presentation of Financial Statements](#), our investor publication that covers key elements of IAS 1 *Presentation of Financial Statements*, and explains how investors can make the most of the information presented.

Some might wonder 'how can this be?' Applying IAS 1, companies are permitted to present line items and subtotals in the financial statements (in the statement of profit or loss or the notes) that are relevant to understanding financial performance. This does not mean that the presentation can take on a 'Wild West' approach and still satisfy IFRS requirements. No—to satisfy IAS 1 amendments, 'non-IFRS' subtotals and totals cannot be accorded special treatment or given more prominence than subtotals and totals set out in IFRS Standards. The 'non-IFRS' numbers must be:

- verifiable—line items must be required or permitted by IFRS Standards;
- transparent—the presentation and labelling must enhance understandability; and
- consistent—the presentation must be consistent from period to period.

These characteristics are relevant to many concerns we hear from investors about using 'non-IFRS' numbers and we believe they support the goal of ensuring transparency to help investors make comparisons and better inform their investment decisions.

In the Principles of Disclosure Discussion Paper to be published later this year, the Board provides preliminary views on additional requirements, including the proposal that EBITDA should only be presented as a subtotal if the statement of profit or loss is organised by nature (rather than by function).

How can I stay in the loop?

The debate about 'non-IFRS' information is ongoing, and we are eager to hear investors' views. A couple of the projects that are most interested are Principles of Disclosure and Primary Financial Statements—both of which feature in this issue's 'We Need Your Views' article.

Common investor concerns about 'Non-IFRS' numbers

- adjustments made by management are opportunistic;
- comparability across companies is compromised by different approaches to the adjustments even among peer companies;
- consistency across time is an issue (management suffers from 'moving the goalposts' syndrome);
- adjustments used to derive the 'non-IFRS' measure are not transparent; and
- 'business as usual' expenses are treated as 'exceptional' or 'one timers'.

'Who regulates what?' is as clear as mud to many investors

Another question we frequently hear from investors relates to what 'non-IFRS' information is exactly, and what IFRS information is, exactly.

Many are unaware of where the line is drawn between who covers IFRS information and who does not.

IFRS standards apply to:

- Primary Financial Statements
- the notes (footnotes) to financial statements

Regulatory requirements outside IFRS Standards may apply to:

- information in financial reports, for example, an annual report. This may include management commentary and analysis, performance measures or credit-risk reports.
- information outside the financial statements, such as press releases and analyst decks.

Some important publications can help investors better understand how this type of information is regulated and how it fits into financial reporting. Given the current timing, a couple of the publications that stand out include:

- IOSCO's [Statement on 'Non-GAAP' Financial Measures](#), issued in June 2016.
- ESMA's [Guidelines on Alternative Performance Measures](#), effective 3 July 2016.

The guidance in these documents addresses key topics such as defining 'non-GAAP' measures, and ensuring that sufficient information accompanies the presentation of those measures (eg reconciliation to nearest GAAP measure). This has an ultimate goal of helping companies to provide investors with clear and useful disclosures while reducing the risk that such measures are presented in a way that could be misleading.

We need your views

The Board 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 the information necessary for investment analysis. We are currently seeking investor views on the following projects.

Overview of topics and outreach timing

Topic	Project Stage	Anticipated outreach	
		Q3 2016	Q4 2016
Financial Instruments with Characteristics of Equity	Research	✓	
Primary Financial Statements	Research	✓	
Principles of Disclosure	Discussion paper		✓

[Financial Instruments with Characteristics of Equity](#)

Some financial instruments have characteristics of both liabilities and equity (eg put options on a company's own shares). The Board is investigating potential improvements to how such instruments should be classified, as well as to the presentation and disclosure requirements for such instruments, irrespective of whether they are classified as liabilities or equity. We would like to understand how the classification of these instruments would affect your assessments of a company's financial position and performance. We would also like to understand what features of these instruments are relevant for investors, what information about those features would be useful, and why. This project is currently in the research stage.

[Primary Financial Statements](#)

The Primary Financial Statements project is an early stage research project examining possible changes to the structure and content of the primary financial statements. We are currently determining the scope of the project and we would like to receive input from the investment community, particularly on issues in current financial reporting. Our initial focus will be on the structure and content of the statement of profit or loss and OCI, including assessing whether to require a defined sub-total for operating profit and examining the use of alternative performance measures. The project will also consider whether there is potential demand for changes to the statement of cash flows and the balance sheet.

[Principles of Disclosure](#)

To help companies determine the basic structure and content of a complete set of financial statements, the Board is conducting research to improve existing guidance in this area. We need your views on specific topics, including the placement of information in and outside of financial statements, disclosure of significant accounting policies and whether requiring disclosures in a specific format makes a difference for investors. We would also like to understand whether the scope and issues addressed in this project respond to investors' concerns about disclosures. A Discussion Paper on this topic is targeted for Q4 2016.

Summaries of investor feedback

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

Date	Summary of Investor Feedback Document
April 2016	2015 Agenda Consultation—Overview of Investor feedback
March 2016	Amendment to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts—Investor feedback Conceptual Framework: summary of investor feedback
January 2016	Fair value measurement—Unit of Account : Investor feedback Present value measurement— discount rates research: Investor feedback
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

Stay up to date

Announcements

[The IASB Investors in Financial Reporting programme welcomed new British, French and Japanese members.](#)

BNP Paribas Investment Partners, Odey Asset Management and Sumitomo Mitsui Trust Bank are the newest members. The programme was established in 2014 to boost our dialogue with the buy-side community to ensure that IFRS Standards continue to meet investors' information needs globally. The new joiners bring the total number of investment organisations in the programme to 18.

[The Board confirmed amendments to the current insurance contracts Standard.](#)

The amendments address issues that may arise from implementing the new financial instruments Standard, IFRS 9 *Financial Instruments*, before implementing the new insurance contracts Standard which will replace IFRS 4 *Insurance Contracts*. At its May meeting, the Board concluded deliberations on this topic and asked staff to draft the final amendments to IFRS 4, which the Board expects to issue in September 2016.

[Ian Mackintosh, Vice-Chairman of the Board, discussed clarifying amendments to the Revenue Standard.](#)

In the latest *Debrief* video series, Mr Mackintosh recapped why a new Revenue Standard (IFRS 15) for financial reporting was developed and issued in 2014, and explains why the Board has now issued clarifications to the Standard.

[The IFRS Foundation published its 2015 Annual Report.](#)

With the theme of *Focussing on the future*, the Annual Report for the year ending 31 December 2015 provides an updated overview of the IFRS Foundation's strategic objectives.

Speeches and events

Hans Hoogervorst, Chairman of the Board, [addressed the annual conference of the European Accounting Association](#) in Maastricht. Mr Hoogervorst highlighted the consequences of increased use of non-GAAP metrics in company reporting, and the associated challenges in reporting on performance. Mr Hoogervorst observed that there is evidence of increasing use of non-GAAP measurement, and that the difference between GAAP and non-GAAP numbers is widening. He called for remuneration committees and investors to be aware of the potential pitfalls of basing policies and decisions on non-GAAP figures, which are often 'sugar-coated' adjustments made by management.

The Capital Markets Advisory Committee held its [annual joint meeting](#) with the Global Preparers' Forum at the IASB offices in London on 15–16 June. A summary of the meeting will be made available in the coming weeks.

The IFRS Foundation held its annual [European Conference in Zurich](#) on 30 June–1 July, featuring an investor-focused IFRS workshop and update session. At this conference Mr Hoogervorst outlined plans to [prioritise improvements to the communications value of financial statements](#) as the main outcome of the Board's recent Agenda Consultation.

On 31 May IASB staff attended an event in [Paris on IFRS 16 Leases](#), hosted by the French Society of Financial Analysts.

On 5 July IASB staff attended an event in [Brussels on IFRS 16 Leases](#), hosted by the European Financial Reporting Advisory Group, the European Federation on Financial Analysts Societies and the Belgian Association of Financial Analysts.

Reading material for investors

Mitch Reznick, CMAC member and co-Chair of Hermes Credit [published an article](#) in Institutional Investor magazine on the recognition of debt.

[In March 2016 Gary Kabureck, IASB Member, discussed the Disclosure Initiative.](#) In an article for *Compliance Week*, Mr Kabureck outlines some of the actions the Board is taking to improve disclosure effectiveness, in response to investors' feedback.

In March 2016 Mr Hoogervorst discussed the new *Leases* Standard in the article ['Shining the Light on Leases'](#).

[An analysis of use of IFRS Standards by Gross Domestic Product \(GDP\) was published.](#) The 140 profiled jurisdictions represent 97.3 per cent of the world's GDP.

Pat Finnegan, IASB member published the article ['Better communication—A table is worth 1,000 words'](#). In the Investor Perspective article, Mr Finnegan offers his perspective on the need to improve the disclosure effectiveness of a company's capital structure and he provides some thoughts about how companies might do so.

The Trustees concluded the 2015 [Review of Structure and Effectiveness](#) of the IFRS Foundation and proposed amendments to the Constitution. The review is the fifth to be conducted by the Trustees, and as such focussed on evaluating and refining the current structure and activities of the organisation (including those established as a result of previous reviews), as well as considering the future role of the organisation.

Register for investor alerts

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