



The Corporate Reporting Users' Forum

Li Li Lian
Assistant Project Manager
International Accounting Standards Board
by email

29 September 2008

Dear Ms Lian

We are pleased to have the opportunity to comment on the IASB's Exposure Draft *An Improved Conceptual Framework for Financial Reporting*.

We believe that this exposure draft marks a significant improvement on the earlier Discussion Paper, and we welcome the way in which the Boards have actively listened to many of the comments which they received. Partly because of this, we intend to respond only briefly to the current Exposure Draft.

Stewardship (OB12)

We raised concerns about "stewardship" in our response to the Discussion Paper. We strongly welcome the way in which the Boards have responded to these concerns in the Exposure Draft. We believe that the proposed approach closely reflects our own understanding of the concept of stewardship, and that the concept's inclusion in the Conceptual Framework is likely to help generate Financial Reporting Standards which will best serve the needs of all users.

General purpose financial reporting (OB3-4)

We are not sure that the drive for general purpose financial reporting is accurately captured in OB4, which suggests that a standard is needed because users do not have the power to establish requirements which preparers will follow. Our experience is that this underplays the ability of users to influence and set standards which preparers need to rise to.

Rather than this suggestion that users are weak and need standards as a protection, we would argue that the need for quality standards is driven instead by the requirement for equality of information among investors. High disclosure



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standards across the board ensure that all investors receive a high baseline of information, and those standards thus give a better chance of market efficiency and confidence.

We therefore see the standard-setting process as supporting the company/shareholder dialogue, the importance of which should not be overlooked.

The entity perspective (OB5-8)

The most substantial area where we have continuing concerns about the Exposure Draft is the issue of the entity perspective.

In particular, we believe that OB6 fails to reflect accurately the expectations of the users of financial reporting, and we believe that this may be driving the boards to a mistaken conclusion with regard to the entity perspective. We believe that OB6 would be better if it were recast to capture more closely the precise informational needs of the parties.

Rather than the description in OB6(a), we believe that the role of equity investors is more accurately reflected by a description that they are active participants in the success or failure of the entity. Because they take the risk of first losses if there is a corporate failure, they expect to be compensated from the residual returns left when all other claims on the company have been paid out. They therefore need to assess the likelihood that future performance will not only provide returns to those other parties but also provide such a residual return. They are interested in how well management have discharged their responsibilities not simply because they have the opportunity to vote on management (individuals and actions) but – more significantly – because a clear view of how well management has discharged those responsibilities gives equity investors the best insight into how well management are likely to continue to discharge their responsibilities into the future. If it appears that that future discharge of responsibilities may be less than optimal, equity investors will have a number of options, including ceasing to be investors or intervening to improve performance (which might in certain circumstances include changing the management).

Similarly, rather than the description in OB6(b), we believe that lenders are better described as providing funds in expectations of a set return. Their concern in



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financial reporting is to understand the scale of any risk that future cashflows will not be sufficient to repay interest and capital as it falls due, and that covenants may be breached. Some lenders will also be interested in the potential sale value of assets.

We believe that these descriptions highlight the fact that the information needs of lenders are a subset of the information needs of equity providers. As CRUF members laid out recently in our letter on the Discussion Paper Financial Instruments with Characteristics of Equity: "As owners of businesses, equity providers share in the marginal returns of the enterprise as they are generally the most subordinate class of stakeholder." Because of this subordination, we believe that financial reporting which serves the needs of equity holders will also serve the needs of all other stakeholders; we also believe that the clarity and simplicity which will come from designating the perspective of current shareholders alone as primary would be extremely valuable in the future development of Financial Reporting Standards. This would lead to Standards requiring a high baseline of information which would serve the needs of all stakeholders.

We continue of the view expressed in the CRUF letter in response to the Discussion Paper, "that the perspective of current shareholders alone should be designated as primary in financial reporting and that the parent company approach should be used rather than the entity approach".

Cash-flow focus (OB10-11)

We believe that the definitions of the needs of equity and fixed-income investors given above highlight the fact that financial reports should provide not simply insight into cashflows but also into the capital invested in a business and the returns that are generated from that capital. We continue to believe that the Conceptual Framework would be enhanced by the addition of a sentence to the effect that "Users also require data on capital invested historically and returns from that capital to allow them to understand the company's business model and so develop assessments of likely future performance."

We would welcome the opportunity to discuss these issues in person. Please direct enquiries to Paul Lee in the first instance.



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About the Corporate Reporting Users' Forum (CRUF)

The CRUF was formed in 2005 as a discussion forum with the aim of helping its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of the International Accounting Standards Board.

The CRUF is a discussion forum. It does not seek to achieve consensus views, though at times its participants will agree to make joint representations to standard setters or to the media. The chairmanship of the CRUF rotates at each meeting and different individuals take leadership in discussions on different topics and in the initial drafting of representations.

CRUF participants include individuals from both buy- and sell-side institutions, and from both equity and fixed-income markets. The forum includes individuals with global or regional responsibilities and from around the world. The CRUF meets on a regular basis in London, Frankfurt and Sydney

Its participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Notwithstanding this, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. The members of the Forum that have specifically endorsed this response are listed below.

Yours sincerely

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