The Corporate Reporting Users' Forum

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5th June 2008

Dear Sir David and Mr Herz,

CRUF presentation to the joint meeting of the IASB and FASB

We are writing as members of the Corporate Reporting Users' Forum to thank you both and your respective Boards for setting aside time at your joint meeting on Tuesday 22nd April to discuss our views regarding financial reporting and your Boards' respective future agendas.

We have been very encouraged by both Boards' willingness to proactively engage with users and this meeting was another very helpful step forward in that engagement process, which we look forward to building on in the future.

Much like our presentation to the meeting, we cannot hope to cover all the finer points of detail in one letter so we look forward to following up the issues discussed at the meeting through specific comments letters and/or meetings with Board members and the project managers concerned.

That said, we thought it would be helpful to follow up the meeting with a written summary of the key points that we raised and an indication of the topics that we would like to see given a high priority in the work plans of both Boards.

Evidence-based standard setting

One of the key themes which we want to highlight is the need for "evidence-based" standard setting. We regard standard setting as very much a political endeavour in the broad sense of the word – in other words it should be a process of discussion and debate whereby the various stakeholders in the process (users, preparers, accountants, regulators and standard setters) determine principles-based but pragmatic solutions to inefficiencies in the process by which companies communicate in financial terms with shareholders and other people providing their capital.

A clear framework of principles is essential if this debate is to be productive and conducted in an efficient way and we support the Boards' efforts in this area. When we wrote in response to the Conceptual Framework discussion paper in November 2006 we emphasised our desire to see a conceptual framework which had authoritative status and facilitated the production of financial reporting standards which are themselves "principles-based and comprehensible to the financially literate". We remain of this view and we regard the completion of the Conceptual Framework as a high priority. We will read the Boards' proposals published on 29th May with great interest.

When it comes to determining priorities for work on financial reporting standards we would prefer the allocation of the limited resources of both Boards to be based upon evidence of a positive cost/benefit payoff for the capital markets. This in turn requires a greater focus on identifying the current inefficiencies in the capital markets that are caused by poor financial reporting, and then on finding evidence that suggests that a change to financial reporting is likely to bring improvements.

We understand that there will be competing priorities and that the Boards may sometimes have to take account of political pressures as well, but we believe that these should be the exception rather than the rule and that the priorities for users of accounts should be at the forefront of the Boards' agendas. We have set out our own suggestions on user priorities below.

Cash flow statement, performance reporting, and net debt

We wrote to both Boards regarding performance reporting on 23rd October 2007. We regard this project as the highest priority, since the solution to many of the issues that are being debated in relation to other projects often relates to how changes in assets and liabilities are reported. We regard this project as extremely important and we were very encouraged by the way that Bob Herz summarised our views at the meeting – in particular our need for an earnings subtotal and a format that helps us to differentiate between operating, financial, and investment activities.

We acknowledge that investors and analysts have differing views in relation to some of the detailed points of performance reporting, and that some do not regard an earnings subtotal as essential, but a significant majority use reported earnings as an important input into comparative valuations and assessments of company performance. Conversely, we do not believe that users generally try to forecast a Total Comprehensive Income figure, nor that they usually find such a total useful for valuation or analysis purposes. That is not to say that we object to having a single Statement of Comprehensive Income, simply that we regard different elements within such a statement (and the associated subtotals) as more useful than the final total.

This is an area where there has been a tendency for the debate to produce more heat than light, and we would encourage the Boards to look at the survey evidence that has been published over the last year and consider gathering more in order to determine what information the capital markets require in relation to the cash flow statement and the performance reporting statement. We will obviously be happy to continue lending our support in this regard and look forward to continuing the constructive dialogue with both Boards and their staff.

We hope that Peter Reilly's presentation on cash flows provided some insight into the current difficulties we face in identifying and analysing historic cash flows, particularly in relation to acquisitive companies. We regard the fact that it is frequently impossible to reconcile the information shown in the cash flow statement with changes in the balance sheet and, more specifically, the fact that many companies do not report how cash flows reconcile to changes in their net debt position, as major flaws in current reporting. We are keen to support the Boards in their efforts to make improvements in this area and we will be writing to both Boards explaining what we currently find difficult and where we would like to see improvements.

Intangibles and acquisition accounting
We wrote to the IASB on 1st August 2007 stating that we did not regard a project on Intangibles as a high priority based on our view that improvements in this area could be achieved more effectively by disclosure and expanded discussion in the management commentary rather than further efforts to identify, measure and recognise intangible assets which do not currently appear on the balance sheet.

However, we have a more immediate concern in relation to "acquisition intangibles" – those that are already being recognised and amortised under the IFRS 3 / SFAS 142 acquisition accounting rules (a point discussed in some detail by Peter Reilly in his presentation). We are concerned that these rules are imposing costs on preparers that are not warranted by the benefits to users.

As far as we are aware, the majority of investors and analysts make little use of the information provided regarding acquisition intangibles when making investment decisions. However, it is worth clarifying that we do attribute value to intangibles that have a value as separable assets in the market and/or are valued as such in market transactions (patents, licences, and brands might be obvious examples) but, in general, we do not regard the process of re-analysing what would previously have been classified as goodwill as helpful if it involves theoretical calculations that would not have been performed in the normal course of assessing the acquisition or merger, particularly in the light of the costs involved.

In the vast majority of cases the amortisation charges that result from the identification of these "acquisition intangibles" are not regarded as economically meaningful by users (in many cases they might even be regarded as double-counting the costs associated with maintaining the intangibles concerned). Many companies do not provide a clear breakdown of their intangible amortisation charges making it difficult to separate this amortisation from that which might be regarded as more meaningful (for example, the amortisation of a patent or licence). This issue will become more significant since over the next few years the proportion of "acquisition intangibles" on company balance sheets will increase.

Other areas we believe should be a high priority for both Boards
Sue Harding outlined a few of the areas that we would like to see given a high priority in the work plans of both Boards and we have summarised a more complete list of these projects in the first annex below. We would obviously be delighted to discuss each of these topics at more length with your Boards and the project managers concerned.

Areas where we believe existing projects should be brought to a swift conclusion
There are a number of existing projects that we believe could usefully be brought to a swift conclusion given the work that has already been done, and the benefits to the capital markets of doing so. These are listed in the second annex.

All other projects should be examined to see if the benefits outweigh the resources required

The projects on the current work plans of both Boards that are not listed should be examined carefully to see if the expected benefits for users warrant the allocation of scarce Board resources at the moment (or the potential costs that will be imposed on preparers).

Financial Instruments simplification project

We strongly support moves to simplify the accounting for financial instruments and hedging transactions but we have not debated this particular project to a sufficient extent to be able to comment in this letter. However, it would be fair to say that some CRUF members are concerned that the current proposals will be disruptive and costly for preparers to implement without delivering significant benefits to users.

We welcome the efforts that both Boards are making to engage with users

We are very encouraged at the time and effort being made by the staff and members of both Boards to engage with users and seek their views, and we are keen to continue to play our part in that process. We look forward to a continued dialogue.

Yours sincerely

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About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together 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 and the Financial Accounting Standards Board.

The CRUF is a discussion forum. It participants take part in CRUF discussions and join representations as individuals, not as representatives of their employer organisations. 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, 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 both London and Frankfurt with members dialling in from other locations around the world.

Areas which we feel should be high priorities for the Boards

Item	Priority (timing)	Rationale
Reporting performance	High (immediate)	See comments above
Cash flow statement	High (immediate)	See comments above
Acquisition intangibles	High (immediate)	See comments above
Leasing	High	Accelerate the current project
Revenue recognition	High	Very important for US GAAP. Users want better disclosure and do not like to consequences of applying the proposed measurement model
Pensions	High	Accelerate the current project. Short-term fix: ban the corridor method. Longer-term: consider issuing the ASB paper as a discussion paper.
Insurance	High	Improving accounting in this area is clearly important but proceed with caution as this project has implications for a number of other areas (e.g. pensions)
Income tax	High	Fundamental rethink required as the existing data set is confusing and not useful. Do not make minor changes in the meantime.
Framework D reporting entity	High	Proper debate on parent or entity concept and what to include in consolidation.
Framework B elements	High	Too many different recognition and derecognition triggers so simplification important.
Framework C measurement	High	Too many different measurement basis so simplification important.
Framework E Presentation	High	Proper debate on the purpose of the primary financial statements and what to include in notes.
Framework F purpose/status	High	Agree role of framework and its influence over standard setting decisions.

Areas where we believe existing projects should be brought to a swift conclusion

Item	Priority (timing)	Rationale
Extractive industries	Medium (immediate)	Consistency with good disclosure is more useful than the present diversity.
Management commentary	Medium (immediate)	Proposals had widespread support
Cost of investments	Medium (immediate)	The proposals remove a potential barrier to company dividends in some jurisdictions
FI puttable instruments	Medium (immediate)	Substantially complete
Related parties (China)	Medium (immediate)	Substantially complete