The Corporate Reporting Users' Forum

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Via email: commentletters@ifrs.org

18th January 2016

Dear Members of the IASB

Request for Views: 2015 Agenda Consultation

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Request for Views: *2015 Agenda Consultation.* Our response is set out below, but will not be at a detailed level, and will not respond to each individual question.

We support a switch from a 3 year agenda setting cycle to a 5 year cycle. Progress has been slow – we recognise that this is due to a combination of limited resources and the due process requirements, but it is frustrating for users nonetheless. A 5 year cycle may allow the Board time to deliver more fully and complete projects before reopening the consideration of its future agenda.

In part our view that 3 years is too short a period is driven by the fact that our views on what ought to be the IASB's priorities have not changed much since the last agenda consultation (we attach our letter of December 2011). We remain firmly of the view that the main priority for the Board over the next period is to address the question of performance reporting; we continue to believe that the draft Financial Statement Presentation (FSP) standard had much to commend it. The five quick wins proposed in 2011 are still very relevant and should be a key element of the new agenda.

We would welcome the Board reviving the FSP project and progressing whatever other elements may be necessary to take this forward to a conclusion. We are supportive of the Board's current efforts with regards to OCI, and we support the move away from focusing on Comprehensive Income as a (the) measure of performance.

Alongside this, we believe that the Board should focus on implementation reviews and considering key problems with existing standards. We are supportive of the disclosure initiative and particularly welcome the way this is being used to identify targeted limited improvements which significantly enhance reporting. We hope that this model can be replicated into the future.

In our view, the Board's agenda should be as simple and focused as this, and we would argue that the Board should be slow to undertake any further projects.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organizations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organizations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

Paul Lee
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The Corporate Reporting Users' Forum

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6th December 2011

Dear IASB board members

The Corporate Reporting Users' Forum (CRUF) welcomes the decision by the IASB to launch its first public agenda consultation. We consider it to be very important that the IASB addresses issues that are of widespread concern, as opposed to pursuing a narrower agenda based on convergence with US GAAP and/or political issues. We also think that the large number of new standards being proposed has meant that major problems with existing standards are being overlooked. Some recent standards have either created new problems or failed to address long-standing concerns. We are hopeful that the agenda consultation feedback will encourage the board to be more receptive to fixing existing problems.

As you are aware, the CRUF is a diverse body and does not seek to achieve a consensus. However, there was unusually broad agreement by many CRUF members on the preferred future direction of the IASB. This letter attempts to bring the main views together.

Before getting to the detailed agenda comments, we would to like to make some general comments.

We support:

- The principle of consulting on the future agenda.
- Your comment that standards should "provide a faithful presentation of an entity's financial position and performance". This should be a central tenet for all new and revised standards. The comment is also in line with the CRUF's guiding principles (which are attached as an appendix).
- Your statement that the main driver of future standards will be the needs of investors. We recognise that there are many other users of financial statements but we think that 1) investor needs should be the primary driver and 2) there is no conflict between the needs of investors and the needs of other users.
- The focus on the relevance and reliability of information. In particular we would highlight that 1) disclosures should be both adequate and relevant, 2) the cash flow statement should provide a comprehensive explanation of all cash- and debt- related movements in the period and 3) the concept of materiality should always apply so that we do not get large amounts of information on matters of trivial importance.
- The undertaking to improve existing standards through targeted improvements. We have been disappointed by the lack of attention paid to fixing sometimes glaring weaknesses in existing standards and increased focus on addressing these weaknesses would be very welcome. For comments on areas of perceived weakness please refer to www.cruf.com.

In response to the 2 questions:

Question 1. What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

We would like to see the IASB continue its work on developing a conceptual framework, especially regarding the principles for presentation and disclosure. We would like the conceptual framework to be concise and we would suggest the CRUF's guiding principles as a potential starting point (See appendix 1).

We thought that the draft of the Financial Statement Presentation (FSP) standard contained some promising ideas. We would like to see progress on this project, especially with regard to the cohesiveness of the financial statements. There is also widespread unhappiness with Other Comprehensive Income (OCI), both in principle and in practice.

In the meantime, there are many important areas where current disclosure is poor and we would encourage the board to address these as a matter of urgency. We believe that this would be very well received by capital markets. We have attached a list of our suggestions for improvements, (See CRUF "Five quick wins" in Appendix III).

There is broad support within the CRUF for convergence with US GAAP but not as an overriding imperative. We do not want convergence if it leads to new standards that are inferior to the ones that they replace.

Question 1(a) Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

There was broad support for the five strategic areas but the issue here is words versus deeds. There is no value in having a post-implementation review unless it leads to improvements in the standard being reviewed. We would love to see "targeted narrow-scope improvements to IFRSs in response to issues that have been identified" but we cannot recall any actual examples of improvements that have been made as a result of investor feedback.

Question 1(b) How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

There was no clear consensus on this point but please see our response to question 2 below.

Question 2: What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

After the large number of new and amended standards in recent years, many CRUF members felt that a period of calm reflection would be welcome, especially if this followed by improvements identified by post-implementation reviews.

We would like to see the introduction of a satisfactory leasing standard and we also think that the FSP showed promise. However, we also think that it is important that the board follows due process as we would prefer a later, better standard to an earlier but lower quality standard.

We would strongly encourage the board to consider that improving existing weaknesses is a "pressing" matter.

Question 2(a) Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

In Appendix 3, the CRUF prioritises the IASB's list of suggested projects.

There are instances where the CRUF will classify a project as important (e.g. FX), but not for the reasons suggested in the appendix to the agenda consultation document. In such cases, the CRUF offers a brief synopsis of the challenges with existing disclosure that it would like the Board to address.

Any significant regional variations in the classification of a project are noted in the table.

Question 2(b) Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

Please see the response to question 1.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help 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 accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organizations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

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Appendix I – CRUF Guiding Principles

The Corporate Reporting Users' Forum

CRUF Guiding Principles

Accounting standards that govern the preparation of corporate reports should be principles-based and comprehensible to the financially literate. These standards should not result in outputs that are at odds with economic reality.

Such standards should be based on the presumption that the stated principles are faithfully applied. Therefore standards should avoid unnecessary detailed prescription and not unduly restrict companies in presenting meaningful results that are in accordance with those principles.

Corporate reports should report economic reality.

Accounting standards should require compliance with their spirit rather than their letter so that preparers are required to disclose economic 'substance' rather than accounting or legal 'form'.

Users want transparent and comprehensive disclosures.

Corporate reports should be prepared with the objective of providing a fundamental source of information for investors and creditors on which to base their decisions.

Corporate reports should provide information that is clear, understandable, consistent and relevant.

No single primary statement should take precedence.

Not all information that is relevant for users of corporate reports has to be reflected in the primary financial statements. Some information, such as contextual and non-financial information may best be presented outside the primary financial statements.

Accounting standards should not discourage companies from presenting additional information that is useful to users.

The purpose of the cash flow statement should be to identify and explain cash inflows and outflows over the period. Further, the cash flow and accompanying notes should provide insights into the drivers of maintainable cash flows as well as the trends over time of these drivers.

The cash flow should be capable of comparison and reconciliation with the profit and loss and balance sheet. The impact of acquisitions and disposals on these cashflows should also be clear.

The purpose of the balance sheet should be to reflect the capital invested in the business along with capital adequacy, compliance with legal covenants and stewardship.

The purpose should not be to determine the entity's fair value. Further information regarding the values of individual assets and liabilities (including assumptions and sensitivities), should be provided in the notes.

The purpose of the profit and loss statement should be to identify the returns generated from the capital invested in the business.

The profit and loss and the accompanying notes should clearly differentiate and analyse relevant information, such as: operating performance from financing activities; recurring from non-recurring activities; value changes from trading activities.

Appendix II – Global CRUF priority list

Topic	High	Medium	Low	Very Low	Comments
Agriculture - particularly bearer biological assets			✓		
Business combinations between entities under common control			✓		
Country by country reporting				✓	
Discount rate	✓			✓	Insurance / Financial Instruments and pensions high, others low.
EPS		✓			The key issue is around adjusted EPS, rather than simplification of the existing diluted EPS calculation.
Emissions trading schemes		✓			
equity method of accounting		✓			Potentially losing equity accounting of 50:50 JV's could result in a significant loss of information for an investor.
Extractive industries		✓			
Financial instruments with the characteristics of equity	✓				
Financial Statement Presentation - Excluding OCI	✓				
Foreign currency translation		✓		✓	CRUF DE noted that there could be significant improvements to the disclosures of foreign currency impacts. Functional currency, however, is not a concern for participants in the CRUF.
Government Grants				✓	
Income Taxes			✓		
Inflation accounting (revisions to IAS29)			✓		

Intangible assets		✓			CRUF Japan felt this project was high priority. Creation and amortisation of intangible assets resulting from acquisitions is also widely regarded as unsatisfactory.
Interim reporting			✓		
Islamic transactions and instruments				✓	
Liabilities (amendment to IAS37)		✓			
Other Comprehensive Income	✓				
Post employment benefits	✓				
Presentation and disclosure standard	✓				
Rate regulated activities				✓	
Share Based Payments	✓				

Appendix III – CRUF quick wins

Five Quick Wins 2011

The Corporate Reporting Users' Forum

If the investment community were in charge of the evolution of reporting, what would they change?

The participants in the global CRUF community have been talking at some length about the usefulness of reporting today. Through their discussions, they have identified a number of areas where financial statements are not meeting the needs of the capital markets. Some of the topics highlighted through the CRUF's debates would require a fundamental review of existing accounting standards. However, a number of the most commonly cited frustrations could be resolved today through voluntary disclosure by companies.

This document highlights just five of the CRUF's most commonly cited "quick wins". The intention is to focus on the pragmatic rather than rehearse conceptual debates. It is hoped that areas identified could be addressed by most companies without significant incremental cost. However, the CRUF recognises that this will not be universally true. Similarly, it recognises that there will be companies for whom elements of this list will not be relevant. And so the Forum wishes to stress that it does not wish companies to view this as yet another check list; its ambition is simply to offer some feedback on the effectiveness of some areas of reporting today.

If you would like to discuss these suggestions further, please contact Sue Harding, CRUF participant at sueharding@hardinganalysis.com or Alison Thomas administrator to the global CRUF community at alison.thomas@uk.pwc.com.

Five Quick Wins

1. Segmental

As investment professionals, we typically build our models from the "bottom up" and so rely on management to provide the financial and non-financial metrics that will allow us to forecast financial performance for a segment and to compare the operational performance and valuation metrics of a given segment against similar entities.

To do this, the CRUF encourages management, where possible, to consider including the following lines in their segment disclosures, particularly where management is already using such information internally to assess segmental performance:

- Revenue
- Operating profit (or a similar measure)
- Share of results of associates and JVs (income statement data)
- Depreciation and other non-cash expenditure
- Operating cash flow
- Capital expenditure
- PP&E
- Operating net assets
- Share of net assets of associates and JVs (balance sheet data)
- Working capital
- Debt
- Total assets and liabilities
- Capital employed

We would like to stress "through management's eyes" metrics – both financial and non-financial. Also, segment metrics should always be reconciled to the IFRS ones used in the group accounts.

Whilst the CRUF welcomes a “common sense” check on the number of segments separately identified so they are not unreasonably numerous, where practicable, we encourage management to use the “business model” as the “unit of account” when deciding on the primary segmental split so that reported segments do not contain very dissimilar business activities.

2. Net debt reconciliation

The CRUF strongly encourages management to provide a net debt reconciliation.

A net debt reconciliation allows us to assess how business financing has changed over time. Without it, we are left struggling to understand the impact of FX movements arising on debt, the value of debt acquired or disposed of in business combinations, the impact of fair value and fair value hedge adjustments, whether the increase in cash balances can be explained by a commensurate increase in debt, and so on.

As “net debt” is not defined under IFRS, we would also encourage companies to make clear how they calculate the figure and reconciling each component, and for companies to remain consistent in that definition from year to year, where possible.

3. Debt

The economic downturn and continued strain on the availability of financing have resulted in an increased focus on cash and an entity’s ability to fund working capital requirements, refinance existing debt and secure new debt. What are management’s plans for servicing existing debt and are there any risks associated with this? For investors to feel more comfortable with an entity’s funding arrangements, the CRUF encourage companies to:

- Provide greater detail on maturity schedules – for example, it would be helpful if management provided the debt repayments that fall due in each year (for a minimum of 5 years) rather than sticking to the buckets identified, as an example in IFRS7, of “less than 1 month, 1-3 months, 3 months to 1 year and 1 – 5 years”.
- It is most frustrating that, as IFRS7’s requirement that the maturity schedules include gross contractual amounts including interest, we cannot always relate the numbers presented in the maturity schedules to the carrying values in the balance sheet. We would be most grateful if companies could help us tie the two sets of data together, showing principal and interest payments separately, and reconciling total gross payments to the balance sheet (i.e. showing adjustments for discounting, fair value hedge adjustments, fair value option adjustments etc.)
- Although IFRS requires management to report on any defaults or breaches of loan agreement terms that are not resolved by the period end, we would value additional information about the principal covenants – their terms and any restrictions in place.
- In similar vein, we would appreciate clearer disclosure of any restrictions on the repatriation of cash that might impede the ability to meet future financing needs.
- As the investment community is interested in the underlying economic flows of a business, we encourage companies to provide better disclosure of the effective interest rates that they face and the effective currency of debt obligations.

4. Cash disclosures

Whilst the talk on conference calls and in investor presentations may focus primarily on lines from the income statement, to understand the quality and sustainability of performance we need to be able to tie across the key lines of the primary statements.

Given that most analysts will use the operating line in the income statement in analytical models, the CRUF would encourage companies to help us to tie across the statements by starting the cash flow statement at an operating line.

We would also welcome more detailed descriptions of the adjustments made to derive operating cash flow so that they can be more easily related to items on the balance sheet (e.g. changes in significant components of working capital assets and liabilities, differences relating to various provisions such as pensions, asset retirement obligations, derivatives, etc).

If possible, we would appreciate the capex line being split into maintenance, growth and acquisition spend.

We would also welcome greater clarity about non cash transactions and how they affect the cash flow statement (e.g. new finance leases, non-cash contributions to pension trusts, non-cash consideration in a business combination). Summarizing these would provide clearer context for the analysis of amounts that are reported as cash flows.

5. M&A

M&A activity is on the increase. Given the size and significance of many of these transactions, we encourage management to provide us with enough information to assess the value created through such activities. In the absence of some clear description of how value has been extracted from the significant sums invested in M&A, it is hard for investors to have confidence that the return on such investment is sufficient.

To do this, we would welcome:

- A clear disclosure of the total consideration paid for an acquisition (including the debt acquired, pension liabilities assumed etc).
- A clear description of the intangibles acquired. In particular, we would like to be able to distinguish between those acquired assets that have a finite life (e.g. a patent) and those that are sustained through expenditure that goes through the income statement (e.g. customer lists and brands). This will allow us to determine whether we wish to reverse the associated amortisation charge or not.
- Management will typically discuss the strategic rationale for any acquisition made. However, once the acquisition has been finalised, it can be difficult to assess whether the stated strategic ambitions have been met. We would welcome clear disclosure of the financial returns from the acquired assets or businesses. However, we recognise that integration often means that it is sometimes difficult to identify returns specifically attributable to them. In the absence of such information, we appreciate any insight – perhaps through non financial metrics – that companies can bring regarding the skill and discipline with which they manage acquisitions.