JOINT INVESTOR OUTREACH EVENT

IASB DISCUSSION PAPER DISCLOSURE INITIATIVE – PRINCIPLES OF DISCLOSURE

SUMMARY REPORT

OSLO

15 JUNE 2017

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event and has been jointly approved for publication by representatives of EFRAG, NFF, NASB and EFFAS who attended the outreach event.

Introduction

EFRAG together with the European Federation of Financial Analysts Societies (EFFAS), the Norwegian Society of Financial Analysts (NFF) and the Norwegian Accounting Standard Board (NASB) organised an Investor Outreach event in Oslo, Norway on 15 June 2017 covering the IASB's Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure* (the 'IASB DP'). This report has been prepared for the convenience of European constituents.

The joint outreach event was one of a series organised across Europe following the publication of the IASB DP. The purpose of the outreach event was to:

- stimulate the debate in Europe;
- understand users' needs, in particular from those that did not intend to submit a comment letter to EFRAG or the IASB, and their main concerns;
- receive input from users of financial statements for EFRAG and NASB comment letters to the IASB; and
- learn to what extent the preliminary comments as set out in EFRAG's draft comment letter are shared by Norwegian users.

Henning Strøm (NFF, member of EFFAS Financial Accounting Commission) opened the outreach event and welcomed the speakers and participants. Subsequently, Steinar Sars Kvifte, EY, presented relevant results from some recent NFF surveys. Thereafter Saskia Slomp (EFRAG Director Governance &Admin) and Patricia McBride (EFRAG Technical Director) provided an overview of the IASB DP and summarised EFRAG's tentative views on the IASB DP. This was followed by an open debate with participants led by Henning Strøm and facilitated by Javier de Frutos (Chairman of EFFAS Financial Accounting Commission).

The presentation slides and key elements mentioned in the presentation can be found on EFRAG's Website (here).

Summary of observations

Participants at the event expressed the following views:

- annual reports were mentioned as one of the most important sources of information, just after "face-to-face meetings" with management, particularly when there is a financial crisis or when companies have financial difficulties;
- concerns about the use of boilerplate and irrelevant disclosures, which obscured the financial statements. Further, relevant information is often difficult to understand or is missing;
- the principles in the ESMA Guidelines on *Alternative Performance Measures* could be extended to Alternative Performance Measures (APMs) presented within the financial statements to increase transparency on their use;
- the IASB should analyse the implications of the latest developments in technology on the presentation of disclosures;
- there are significant variations in the structure and content of the financial statements and participants called for more standardisation;

- wide spread use of non-IFRS information within the financial statements may lead to additional complexity and undermine IFRS Information; and
- EBITDA is a key performance measure for valuation purposes and it is important for the IASB to agree on a common definition.

Discussion on the IASB DP

Opening and welcome

Henning Strøm opened the event by welcoming the participants and introducing the topic.

Presentation on *Communication Effectiveness* by the Norwegian Society of Financial Analysts

Steinar Sars Kvifte (Member of the NFF Committee on Financial Information) presented the views of Norwegian analysts and investors on the use of financial information based on information collected through a number of surveys run by the NFF.

He explained that according to a survey issued in 2013, NFF members had ranked annual reports as one of the most important sources of information, just after “face-to-face meetings” with management.

“Information in the notes is too generic and not detailed enough”.

These NFF members had also considered that financial statements provided useful information and that their overall structure was appropriate. However, they had raised concerns about the use of boilerplate and irrelevant disclosures, which obscured the financial statements. Some NFF members had also mentioned that relevant information was often difficult to understand or was missing.

When referring financial information that is key for analysts and investors, Steinar Sars Kvifte noted that NFF members had revealed, in a survey issued in 2014, that disclosures on segment information, impairments, financial instruments, changes in accounting principles and financial risk were key for analysts and investors.

Principles used in the ESMA* Guidelines on Alternative Performance Measures *could be extended to APMs presented within the financial statements presented under IFRS to increase transparency on their use.

Steinar Sars Kvifte mentioned that the 2016 Statement of Recommendation of the NFF Committee on Financial Information highlighted that APMs were useful to analysts and investors. However, it was noted that there were concerns around the communication, consistency, comparability and transparency of APMs. In particular, it was noted that:

- APMs should not be more prominent than IFRS measures;
- comparatives should be presented;

- APMs should be clearly defined and reconciliations to IFRS measures should be presented;
- the purpose and relevance of adjusted figures should be disclosed; and
- definitions, explanations and reconciliations should be presented separately (e.g. in an appendix).

The IASB should take into account the ways that financial data can be electronically presented to allow customization.

Finally, Steinar Sars Kvifte highlighted the importance and impact of technology on disclosures and considered that the IASB should analyse the implications of the latest developments in technology on the presentation of disclosures. In his view, users of financial statements should be able to analyse the financial information in the most convenient way for them (and it should not be presumed that they are read as if they were a "book").

What do investors think are useful examples of primary financial statements and disclosures?

Participants noted significant variations in the structure and content of the financial statements and called for more standardization.

Javier de Frutos provided participants a number of examples of financial statements prepared under IFRS. He acknowledged that financial statements were key for investors and analysts when compared to other sources of financial information. However, he highlighted the lack of consistency on presentation of financial statements, particularly on the presentation of line items and APMs.

He also highlighted the importance of having more transparency on the use of APMs, which were broadly used by preparers to explain their underlying performance. For example, Recurring Earnings Before Interest, Taxes, Depreciation and Amortisation (REBITDA) and operating income/profit/activities.

When discussing the examples, participants:

- called for more standardisation, both in terms of primary financial statements and disclosures;
- highlighted that EBITDA and EBIT were considered more reliable than other APMs, even though it would be challenging to agree on a definition;
- highlighted the importance of having APMs clearly defined;
- noted that although financial institutions presented their financial statements differently, consistency was also important;
- explained that disclosures were important for users of financial statements, particularly when the use of significant judgement was required;

- questioned whether disclosures on accounting policies could be improved to reduce the clutter. For example, as accounting policies were most relevant for users when there is a change in an accounting policy, participants questioned whether accounting policies that have not been changed could be presented in an appendix. Alternatively, the accounting policies could be presented within the relevant notes adjacent to the relevant disclosures (instead of using a single note).

Introduction to the IASB DP and EFRAG's tentative position in the draft comment letter

Saskia Slomp presented the brief history of the disclosure problem, some of the IASB and European past initiatives and the key elements of the IASB DP. She also highlighted the increasing trend of the length of annual reports and introduced the key questions of the outreach.

Patricia McBride presented the key elements of EFRAG's preliminary views described in EFRAG's draft comment letter.

Main comments received

Participants were concerned about disclosure overload and called for more conciseness and improvements the application of materiality concept to financial statements' disclosures.

What is the disclosure problem and how important is the application of materiality when deciding what and how to disclose information?

Participants raised concerns about disclosure overload. They acknowledged that the length of annual reports had increased after the adoption of IFRS Standards in Europe in 2005 and that now more information was provided. However, they also noted this had also raised new challenges such as disclosure overload. In particular, participants noted that:

- the introduction of new disclosure requirements over the years had led, in many cases, to an increasing use of generic language and inclusion of irrelevant information;
- some entities tended to have a compliance approach when preparing disclosures (i.e. checklist approach);
- part of the disclosure problem was related to behavioural issues. Participants emphasised that the information provided in the disclosures depended significantly on behavioural aspects of management. For instance, if there was a change of management, the information provided in the disclosures could change significantly (e.g. new relevant information could be disclosed with a change of management); and

- there is room for improvement to the disclosures requirements in IFRS 8 *Operating Segments*.

To address these issues, some participants considered that it was important to improve the application of the materiality concept to financial statements' disclosures. Participants also referred to the New Zealand Accounting Standards Board Staff's approach, with a two-tiered approach, as an alternative way to solve the issue of disclosure overload.

Can principles make communication more effective?

Management makes use of social media, financial roadshows and other non-regulated forms of communication to tell their own story.

Annual reports play an important confirmatory role but there is a need to focus on what relevant information is.

Participants explained that financial statements were only one part of a company's communication toolbox.

Other significant means of communication included webinars, webcasts and face-to-face presentations which were often not regulated and where management had more freedom to tell their own story.

Some participants noted that the issue of disclosure overload was also related to disclosure requirements overload. Companies tended to solve this issue by using other non-regulated forms of financial communication, which often included non-IFRS information. Participants also noted that management tended to show a more positive side of their business.

For this reason, annual reports were considered an anchor, particularly when there is a financial crisis or when companies have financial difficulties. In such situations the role of financial statements increase significantly.

In regard to principles of effective communication, one participant considered that a missing component was relevance. He considered that there should be guidance on what relevant information is.

Should 'non-IFRS information' be permitted within the financial statements?

Wide spread use of non-IFRS information within the financial statements may lead to additional complexity and undermine IFRS Information.

Participants referred to the importance and widespread use of APMs by companies. However, they raised concerns about the misleading nature of some non-IFRS information provided by management, which characterised performance in a more positive way than the performance reported under IFRS.

When discussing whether 'non-IFRS information' should be permitted within the financial statements, participants noted that a proliferation of non-IFRS information within the financial statements could:

- lead to a confusion of performance measures;

- introduce more complexity and reduce understandability in terms of what the right number is;
- undermine IFRS performance measures;
- make it more difficult to understand what has been audited and what has not; and
- reduce comparability.

One participant considered that non-IFRS information should not be presented within the financial statements. If it is included within the financial statements, it was important to clearly identify the non-IFRS information and provide guidelines on this inclusion and the extent to which the non-financial information was audited.

Should EBITDA be permitted or required in the financial statements?

EBITDA is a key performance measure for valuation purposes and it is important for the IASB to agree on a common definition.

Some participants highlighted that EBITDA is a key performance measure that is widely used by investors and analysts for valuation purposes.

These participants considered that it was important to have a common definition of EBITDA provided by the IASB, together with a requirement to disclose it within the financial statements. It was argued that this would facilitate comparability and reduce users' needs for other performance measures to be presented by management.

They also highlighted the importance of having assurance from auditors on the calculation of EBITDA.

Should unusual and infrequent items be separately presented and if so how?

Information about non-recurring, infrequent or unusual transactions is important to users but management tends to remove negative aspects of performance from operating profit.

Participants acknowledged that information about non-recurring, infrequent or unusual events or transactions is important for analysts and investors, particularly by the end of the year (not waiting until the annual report is issued).

Some participants were concerned that management tended to eliminate, remove or omit only significant negative aspects or items of their performance measures and that some of these expenses labelled as non-recurring (e.g. restructuring costs) appeared every year when analysed over time. That is, management would often provide an enhanced view of performance.

Conclusion - Closing remarks

Javier de Frutos summarised the feedback received, thanked participants for their input and closed the event.