JOINT OUTREACH EVENT

INVESTORS AND ADVISERS: WHAT ROLE CAN YOU PLAY IN ENSURING QUALITY FINANCIAL REPORTING?

ROUND TABLE

BRUSSELS

25 JUNE 2014

This summary report has been prepared for the convenience of European constituents by the EFRAG secretariat and has not been subject to review or discussion by the EFRAG Technical Expert Group. It has been reviewed by the EFFAS and ABAF Secretariats and by European Commission and IASB staff. It has been jointly approved for publication by representatives of the European Commission, EFRAG, EFFAS, ACIIA, ABAF/BVFA and the IASB who participated in the round table.

Introduction

EFRAG, EFFAS, ABAF/BVFA and the IASB joined forces to hold a series of events aimed at gathering input from the user community on a series of topical issues in financial reporting.

The event

As part of this series of events, a round table was held on 25 June 2014 in Brussels to discuss the topic *Investors and Advisers: what role can you play in ensuring quality financial reporting?* The event was held contemporaneously with the EFFAS and ACIIA (Association of Certified International Investment Analysts) Annual General Meeting and attendees therefore included representatives of investor organisations from across the world.

Panellists

The round table was moderated by Hans Buysse, member of the EFFAS Executive Management Committee, and featured Hans Hoogervorst, Chairman of the IASB; Ugo Bassi, Director of Capital and Companies at European Commission DG Internal Markt; Gérard de la Martinière former EFRAG Supervisory Board Member and author of a French report on long-term financing; Françoise Flores, EFRAG Chairman and Jesús López Zaballos, EFFAS Chairman. Profiles of the panellists are available at the end of this summary report.

Welcome and introduction

Jesús López Zaballos welcomed attendees to the joint outreach event, which was part of what was proving to be a successful series. He looked forward to the future collaboration with EFRAG, now EFFAS has renewed its membership of EFRAG. The European Commission had also appointed EFFAS to its informal expert group on the evaluation of the IAS Regulation.

Hans Buysse introduced the panellists and noted that attendees were also welcome to contribute to the discussion. Users, regulators, EFRAG and the IASB all aimed to help different points of view come forward. The overall topic to be discussed was *Investors and advisers: what role can you play in ensuring quality financial reporting?* and was focussed on financial reporting developments. The topics discussed were:

- Current use of financial reporting by investors;
- Interactions between financial reporting and long-term investment;
- Giving directions for, and assessing, financial reporting standards;
- Confidence in financial reporting; and
- Influence on standard setting.

Summary report

This summary report has been prepared for the convenience of constituents. The views expressed in this report are intended to reflect the individual views expressed rather than those of the related organisations.

Executive summary

Panellists emphasised that the information provided by financial reporting needed to be of high quality so that it is of relevance to all users, irrespective of whether they are a retail investor, analyst or another type of user.

Financial and non-financial reporting needs to work together, but they have different roles to play. Financial statements have a big part to play in this, particularly for those who have limited access to other sources of information or have no access to management. In some instances, information provided in financial statements comes too late to be decision-useful, for example during takeovers; but for small listed entities or somebody looking at a company for the first time annual financial reports can be the main source of information.

There are a variety of views on how to make capital markets more efficient and reduce the cost of capital, especially for long-term infrastructure investing. Panellists held different views on the role of fair value: some viewed it as potentially favouring a short term view others believed the use of fair value is appropriate in some situations and the challenge is ensuring it is used when and where appropriate. Overall it was agreed that volatility is a fact of life, but the volatility depicted should reflect real, economic volatility to which the entity is subjected, rather than being caused by accounting.

Financial statements that are high quality will lead to confidence and trust from investors. Investors are interested in consistency and are forward looking, using financial statements as a basis to forecast future returns. Financial reporting needs to be able to enable users to see through any potential bias of management and provide an accurate view of a company's position.

There is a growing number of data sources, including electronic data, but it is not clear to what extent these are used. Reporting requirements need to be proportionate but at the same time facilitate comparability.

Above all, panellists agreed that it was vital that investors are involved in the standard-setting process. EFRAG, the IASB and the European Commission all welcomed EFFAS's involvement and the important role it has to play in developing high quality financial reporting.

Current use of financial reporting by investors

How important are the financial statements for investors compared to other sources of financial reporting? Why should users be interested in the financial statements of companies?

Financial statements are still the main source of financial information for users

Jesús López Zaballos indicated that the financial statements are the main source of financial information for users, although other sources exist including roadshows, press releases and discussions with management. The role of financial statements has changed due to technology, and the way in which users access information has also changed. As an example, EFFAS used to hold joint meetings with companies, but new technology means such meetings are now organised much less frequently.

New markets are developing for small- and medium-sized companies

Alternative markets are now developing, both for equity and other types of securities, which give small- and medium-sized companies access to third-party capital. It is important to have financial information on these companies, which may best be provided with financial statements. For bigger companies it is easier to discuss with, for example, investor relations departments, in a way that is not possible for small- and medium-sized companies. Which means that the relationship users have with company management is completely different.

Financial statements do not always provide information in a timely manner

Financial statements remain very important, but other information available can be equally important. Investors and analysts do not have enough time with CEOs to discuss all of their thoughts. Markets can change very quickly and information is disseminated rapidly through the internet, sometimes in advance of official information. Official information can come very late particularly in relation to mergers and acquisitions. Users have had to change their traditional way of thinking and identify new sources of getting information. Financial statements are an obvious way of accessing information but not the only way.

EFRAG is reaching out to users in the spirit of helping the IASB provide financial statements that are relevant and is collecting direct evidence on how financial statements are used

Françoise Flores explained EFRAG's activities in reaching out to users and EFRAG's particular interest in how financial statements are used. EFRAG's work with users was being carried out in the spirit of helping the IASB provide financial statements that are relevant to them rather than explaining to users how financial statements should be used. These efforts included meetings and other efforts, for example sponsoring with ICAS a literature review on capital providers' use of financial statements.

It is necessary to distinguish between different types of users who have different information needs and levels of access at different times for different purposes

It was necessary to distinguish amongst different types of users, who have different information needs and levels of access at different times for different purposes. Financial reports are an important source of information for someone discovering the company for the first time. Annual financial reports serve as a checkpoint for others who concentrate more on interim reports when they entertain regular involvement or interest in an entity.

EFRAG wants to understand how information is used and for what purpose, and will use that understanding to influence the standard-setting process. One area of concern is when EFRAG is told that certain information is not used. However, EFRAG would not want to draw the conclusion that because information is not used it is of low interest to users. It is needed to be kept in mind that information can be used at different times by different users. How information is used also changes, as was seen when financial reporting for pensions changed. Historically users had not paid much attention to pensions, but when the information about the pension liabilities became available users became very interested. If information was not being used, this may indicate that it was not provided in the proper form, or that it was not usable, for example because it might not be granular enough. Standard setters needed to increase efforts on providing transparent and high quality information, which can lead to information becoming used.

Are non-GAAP measures an indicator that IFRS financial information is not useful to support sound financial communication between management and investors or will some non-GAAP measures always be necessary?

The IASB was relaxed about non-GAAP measures and saw them, to a large extent, as inevitable

Hans Hoogervorst said that the IASB was relaxed about non-GAAP measures and that they were, to a large extent, inevitable. This was because IFRS are not industry-specific, so do not generate all specific information that could be useful to the investor. IFRS also result in almost everything being included in profit or loss, including non-recurring items that investors may wish to remove when predicting recurring income. The IASB wants such items to be included in profit or loss as they could be important information for investors and it was important they were not hidden.

'Non-GAAP' refers to terms such as "operating income"

Non-GAAP information also includes terms such as 'operating income', which is non-GAAP because IFRS does not contain an exhaustive list of line items in primary financial statements.

There are risks linked to the provision of non-GAAP measures and it is important to understand what is meant by them

Companies - and investors - may need specific non-standard information, but there are clear risks involved in the provision of this information, especially with what companies define as non-recurring items. These 'non-recurring items' have a habit of coming back and investors were right to be sceptical about them if they are excluded from non-GAAP measures. When companies use terms such as 'underlying profits' it is important to understand what the company means and how these underlying profits reconcile to GAAP.

The IASB was discussing amendments to introduce rigour in the use of non-GAAP line items

The IASB was discussing making amendments to IAS 1 Presentation of Financial Statements to clarify what should be done when extra line items are included. There was still more work to be done but it was not clear what direction this would take. The scope of the disclosure initiative may be enlarged and may become a disclosure and presentation initiative. The IASB is going to look at the presentation of material, unusual, items and may consider developing presentation guidance on how to group elements of income. It may be difficult to define operating income since this was industry-specific, but it might be possible to provide more guidance on how to present 'operating-like' income. Non-GAAP measures were a fact of life, but IASB would contribute to creating a bit more discipline in how they are used.

Information provided by non-GAAP measures is important to the analyst community but they must be used with discipline

Hans Buysse concurred, saying the information provided by non-GAAP measures was important for the analyst community, but they must be used with discipline. Analysts have time constraints, so comparability is very important.

Do different types of investors and analysts have different expectations and needs on financial reporting?

Financial statements are supposed to provide useful information for all stakeholders, not just analysts but also an entity's management and board members

Gérard de la Martinière said that financial statements are supposed to provide information for all stakeholders: the management and the board of an entity and not just analysts. It is therefore important that IFRS remain based on the normal transactions entered into by a business and that IFRS remain close to the business model of the entity. If that would not be the case, there is a risk of creating financial statements that are very sophisticated but not understandable.

Information would only be relevant if it reflects the business model of the entity

Information in financial statements is relevant only if it reflects the business model of an entity and if it is in line with the way the business is structured and developed. He had a strong feeling that when we speak about long-term investment we have not yet found how to properly include it in financial reporting. Comparability is important, but applying a single set of standards to very different situations does not provide consistent results. For example, applying financial reporting standards based on market value to long-term investments delivers results that do not reflect the business reality.

Analysts and investors have different information needs

He also emphasised that analysts and investors have different information needs. Analysts need lots of information and figures. In his experience, strategy, prospects and governance were more important than figures in discussions with investors. Proper financial reporting standards are important to bring about transparency in financial statements, but communication between investors and management is more important especially where the management accounts and management information differ from the official financial statements which add to the confusion for investors.

Users are best engaging with standard setting at a high level

Overall he believes users have a special message to deliver to standard setters and the best role for users is not to get involved in sophisticated technicalities, but deliver feedback on high level issues.

There was a danger that the business model notion would lead to different financial reporting for each company

Philippe Danjou, IASB member, thought that there was a danger of the notion of the business model leading to different reporting for each and every company. Outside of discussions on financial instruments, it was not clear what the business model meant for financial reporting. Did it mean that Mercedes and Porsche should present different information as they targeted different customer segments and use different yard sticks to measure performance? He could see how non-financial information such as products and strategy was business-model-specific, but was not sure this should carry across to financial information.

Accounting volatility was not helpful for users

A user did not want any accounting uncertainty. Any larger role for the business model should not increase accounting volatility, for example caused by an entity changing business models or what it states to be its business models.

The needs of users are in two layers, requiring both comparable information and details of strategic issues.

Hans Buysse added that he viewed the needs of users in two layers, with a need for comparable information that is quickly accessible, and then a second layer on top of that for strategic and company-specific issues.

Financial information needs to be available to suit the needs

Ugo Bassi agreed that there are different needs for investors and analysts. Markets are complex, with specific activities within the markets requiring different information, meaning one size does not fit all. In terms of policy making, the European Commission would like to ensure that financial information is able to serve the needs of all. Modifications made to the Accounting Directive to introduce non-financial reporting are an illustration of this, as investors are increasingly interested in these aspects.

The interests of one user group should not be privileged at expense of another user group.

Some information is usable by everybody, but other information is suitable only for specific users, and perhaps providing information in a more tailored way could be considered. The results of the literature review, sponsored by EFRAG and ICAS, have indicated that information is used in various ways by different capital providers. The IASB should develop a good understanding on how information resulting from standards will be used by providers of capital. These providers have different objectives, and the varying time horizons are important. In general terms, the interests of one group should not be privileged at the expense of another group.

EFFAS also has an Environmental, Social and Governance Commission and is interested in how such information can be included in traditional financial reporting

Jesús López Zaballos was happy to hear that non-financial information was also viewed as important by the other panellists. Since 2007, EFFAS has had an Environmental, Social and Governance (ESG) Commission as well as its Financial Accounting Commission. The ESG Commission was doing important work on non-financial reporting and EFFAS had recently held a first conference with colleagues in Brazil on the issue. Key Performance Indicators on ESG issues were now being used to create indices. EFFAS has discussed these ESG issues with the European Commission, and have created a training and qualification programme on ESG for analysts. EFFAS is also interested on how such information can be included in traditional financial reporting and could make a contribution in this respect.

There is only one economic reality and if accounting standards can capture that as closely as possible then it is useful to all

Hans Hoogervorst indicated that he had never found discussions about who are the primary users particularly helpful as he believed there is only one economic reality. If accounting standards can capture that economic reality as closely as possible then the information captured will be useful to all users, including creditors, preparers and investors and for society as a whole. The coming Leases standard will help both investors and management get an idea on companies' true leverage. He thought that many CEOs would be surprised by the implicit leverage of the lease commitments. The effect would be similar to what happened when accounting requirements for pensions changed and defined benefit schemes were recognised on the balance sheet. All users value information that depicts economic reality.

Interactions between financial reporting and long-term investment

Should an entity's long-term investing activities have an impact on financial reporting? Why does it matter for investors?

Long-term investment is needed, especially in infrastructure and sustainable energy

Gérard de la Martinière highlighted the need for long-term investment in the economy, not least in infrastructure and sustainable energy. This investment must, largely, come from household savings, which at present are either not sufficiently long-term oriented due to a preference for short-term liquidity or are kept in savings accounts rather than invested on the market. It is therefore necessary to develop a new form of balance sheet intermediation to use the savings of households for long-term investment.

Current financial reporting, prudential and consumer protection regulations get in the way of banks, insurers and pension funds allocating resources for the long-term

A new form of balance sheet intermediation was difficult to deliver under existing financial reporting requirements, prudential regulations or consumer protection regulations. This is why, when the European Commission published its Green Paper, it received such a high level of feedback. A solution needs to be developed that allows financial institutions, insurers and pension funds to rebuild their capacity to lend and allocate resources for long-term investment. The business model for long-term investors is based on long-term liabilities and this has to be taken into account in developing financial reporting requirements.

The European Commission had published a Green Paper and a Communication on long-term financing

Ugo Bassi agreed that this was a question that the European Commission was trying to address. Following the publication of the Green Paper, a Communication was issued in March 2014. This Communication suggests answers on how private-public finance could be boosted and how to make capital markets more efficient. The Communication identifies a number of actions, some of which are related to issues being discussed at the round table.

The use of fair value in new accounting standards will be considered carefully

On financial reporting, the Communication recognises that fair value measurement may favour short-term behaviour, and recommends that when looking at new financial reporting standards, in particular IFRS 9 *Financial Instruments*, whether the use of fair value is appropriate will be considered very carefully.

The European Commission was pleased to see the concepts of Prudence, Stewardship and the Business Model were being discussed as part of the revisi

The European Commission was pleased to see that the concepts of Prudence, Stewardship and the Business Model were being discussed as part of the revision of the *Conceptual Framework*. It was important to ensure that there are no unintended consequences of the use of fair value that may disincentive long-term investors. The aim is that this is something that should be discussed in a comprehensive and serious manner.

There is surprisingly little use of fair market values in IFRS

Hans Hoogervorst said that the IASB have looked at existing IFRS and that there is surprisingly little use of market values in IFRS. On the whole, standards very much take into account the nature of how assets and liabilities contribute to future cash flows in deciding upon measurement.

IFRS 9 has a balance of measurement bases and changes in fair value can already be presented in Other Comprehensive Income

Outside financial instruments fair value is hardly used. If long-term investments are made directly into infrastructure, the assets are held at amortised cost. If the investors have significant influence over the investee, the investments are accounted for using the equity method rather than being measured at fair value. In IFRS 9, the IASB feel they have arrived at what is the appropriate balance with amortised cost for instruments with contractual cash flows and fair value for derivatives.

Most other investments are shares. When trading, all agree that shares should be measured at fair value so the question is what measurement basis should be used for equities held for the long-term. Equity investments are, by their very nature, volatile and investors will not be served by hiding that volatility. IFRS already have an option for fair value changes to be presented in Other Comprehensive Income (OCI) rather than in profit or loss. One of the most successful long-term investors in the world holds almost all of his investments at fair value through OCI and encourages users to look at net worth rather than changes in value recorded in OCI.

An underlying problem getting in the way of long-term investing is lack of equity rather than accounting

The real problem with long-term investing is that governments have no money available for investment and financial institutions are highly geared. When investing for the long-term, volatility needs to be accepted. The lack of equity in financial institutions makes long-term investments difficult, and it is difficult to see how this can be solved through financial reporting.

Fair value plays an important role in banks and insurance companies who fund the real economy

Ugo Bassi agreed with some of the points made by Hans Hoogervorst but said that fair value plays a very important role in banks and insurance companies, who in turn fund the real economy which is why there was a particular focus in the EC Communication on long-term financing.

Fair value has a role to play but one needs to be aware of its limitations

Javier de Frutos, Chairman of the EFFAS Financial Accounting Commission, agreed with Hans Hoogervorst that there was relatively little fair value in IFRS but emphasised that it was important not to disregard it when it was important. Long-term investors are looking at value, but the issues in relation to banks and other regulated entities was a different matter. Business models were good as far as you could quantify them. Fair value has a very important role to play, however all need to be aware of its limitations.

Fair value may possibly result in short-termism, but it might also prevent losses being hidden	One user thought that there was a flip side to the debate on fair value, which was that if more had been accounted for at fair value there is a possibility management may have been more conservative, as the real volatility would have been shown. In some cases volatility obvious to all investors was not shown in financial statements, particularly of financial institutions, therefore causing a lack of trust. Perhaps fair value results in short-termism by investors, but it could also be seen as stopping losses from being hidden.
Discussions on fair value need to consider not only the measurement base, but also how changes in value are presented and how they link to financial performance	Françoise Flores said that when fair value is discussed, this is only half of the subject. The other half is what to do with changes in value and how the changes affect and relate to financial performance. If we want to give differential reporting for different cash-generating models, the time horizon needs to be taken into account and if a sale is an important event it needs to be treated differently to when it is not.

Giving directions for, and assessing, financial reporting standards

Why are all investors interested in prudence and stewardship?

Investors care how information is presented	Jesús López Zaballos noted investors needed to have confidence in the information presented in terms of consistency, homogeneity and comparability.
Investors care about profitability, risk and liquidity	In discussions with investors, the focus was on profitability, risk and liquidity. When analysing these, the most important was that the information was stable: users need to be informed in the same way with consistency in information and, if possible, presentation.
Users are interested in financial statements as a way to project to the future	Gérard de la Martinière added that users are interested in financial statements to project to the future. This means that, to some extent, what is important for them is what is predictable, what is sustainable in terms of economic performance, where risks are located and safeguards exist to mitigate and manage those risks.
Volatility that is outside management's control may reduce the usefulness in predicting the future	Moreover, users remain uncomfortable with "imported" volatility. Volatility outside management's control creates perturbations in results and reduces their usefulness in building predictions.
Financial reporting should assist stewardship by enabling users to judge	For stewardship, when an investor hands money to a company it is in the expectation that management will make the best use of the money that it has been entrusted with, within the reach of action of

whether everything that was reachable was done and with the best use of the capital provided

the company. The prominence of stewardship was therefore an important issue that should be considered carefully in financial reporting. Information should be provided that enables users to judge whether everything that was reachable was done and was the best use of the capital provided. This is another reason why it is important to be cautious about external volatility that might make analysis more difficult.

Prudence was returning to the Conceptual Framework, but it would be made clear that this did not mean a consistent conservative bias

Hans Hoogervorst did not think it was true that all investors asked for prudence, and when the IASB had been holding discussions with them, some had been completely averse to its reintroduction. The IASB had tentatively decided to put prudence back into the *Conceptual Framework*, but also to make clear that it does not mean a consistent conservative bias. The IASB is attempting to capture economic reality, which means neutral accounting, but is also aware there is a huge amount of judgement that is required in financial reporting, not just in fair value but also in cost accounting.

Could financial reporting that is relevant for investors' decisions be adverse to economic growth and financial stability?

Financial reporting helps economic stability by providing transparency by true and fair information

Hans Hoogervorst stated that the role of financial reporting in helping economic stability was in providing transparency. Instability in markets exists when there is uncertainty on real values. For example, in 2008, the uncertainty for banks, and now the uncertainty for some insurance companies caused by income guarantees, caused a lack of trust. Giving transparency was extremely important and there was not an antagonistic relationship between financial reporting and stability: financial reporting assists stability by giving true and fair information.

The Maystadt Report recommended to consider financial stability and economic growth in endorsement

Ugo Bassi noted that the Maystadt Report recommended that when standards are endorsed for use in Europe, the European public interest should be considered by reference to financial stability and economic growth.

In an ideal world, financial reporting would not be antagonistic to stability

He agreed that financial reporting would, in an ideal world, not be antagonistic to stability, but noted that financial reporting is applied in the real world rather than in a vacuum. From a European perspective, it is useful to look at the linkage to economic growth and stability.

Impact assessments are

Gérard de la Martinière thought that this discussion highlighted the

important to understand the impact of choices made in developing standards	importance of impact assessments, to help understand the impact of choices made in developing standards. At a recent conference in Singapore, a simulation was shown that volatility would increase when moving from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9.
Accounting policy choices could have a material impact on the outcome of simulations	Philippe Danjou noted on the simulation that the different ways of applying IFRS 9 could have significant impacts on the outcome of such simulations.
Accounting mismatches were the issue rather than accounting volatility; the IASB attempts to reduce or eliminate accounting mismatches where possible	While he did not see accounting volatility itself as a problem, what was an issue was accounting mismatches, which may arise if different measurement bases are applied to the assets and the liabilities. This was pure accounting mismatches and the IASB was very keen to reduce or eliminate these where possible. Any mismatches should show economic mismatches and not just be caused by accounting

Confidence in financial reporting

Question to the audience - What gives confidence in financial reporting?

Management acknowledgement that goodwill is impaired contributes to confidence	One user gave as an example that he obtained confidence from the impairment of goodwill. Management acknowledgment that a certain acquisition went wrong, by taking an impairment early, is a sign that management are acknowledging reality.
Auditing of financial statements provides confidence and new detailed audit reports in the UK have been well received by investors	Another user obtained confidence from the auditing of financial reports. The new detailed audit reports in the UK that discusses specific aspects, including judgement, had been well received by investors.
The standard-setting processes should be watertight and include appropriate involvement of stakeholders	Ugo Bassi stated it was important that the processes involved in financial reporting are watertight, with the appropriate stakeholders involved. For standard setting, there is the IASB, the reformed EFRAG and additional consultation with stakeholders. For endorsement, EFRAG advises the European Commission, there is an Accounting Regulatory Committee made up of representatives from Member States and scrutiny from the European Parliament and Council of Ministers. On top of this, ESMA has an enforcement role. The processes help assure that the outcome is the right one for Europe. On audit, the new framework should increase the quality of audit, reduce conflicts of interest and increase the

confidence of investors.

Complexity of financial reporting can get in the way of users' confidence

Hans Buysse agreed that the processes were good, but this was seemingly not enough to increase the confidence of users. One of the problems was the complexity in financial reporting.

It is important that users are involved early in the standard-setting process

Jesús López Zaballos reported that one of the criticisms EFFAS had had in the past was they were asked too late in the standard-setting process. It was important to use European organisations that have the direct contacts with users to get their views on proposals. Organisations like EFFAS could be instrumental in enhancing the contacts with users.

There will be a user representative on the new EFRAG Board

Ugo Bassi agreed that it was very important users were heard, and that, as part of this, there would be a user representative from EFFAS on the new EFRAG Board, which he welcomed.

How information is presented can affect how much confidence users have in it

Serge Pattyn, EFRAG TEG member, thought that a major impact on confidence was how information is presented. As part of EFRAG's response to the Post-implementation Review of IFRS 3 *Business Combinations* he had been looking at how information was presented and had seen many good and poor examples. If assets and liabilities were not explained properly it could be very difficult to understand an acquisition. He was interested to know whether there was a role for the IASB in requiring high quality information presentation, or if that was the responsibility of auditors and enforcers.

The provision of high quality information is ultimately a matter for management but the IASB should set an appropriate framework

Hans Hoogervorst replied that the provision of high quality was ultimately the responsibility of management. In terms of the levels of disclosures, there were some good examples where management had focused on what they saw as important. The role of the IASB was in setting the framework, and an example of this work is the on-going disclosure initiative which will highlight the importance of judgement in presenting information that is important for users. Philippe Danjou stressed the importance of disclosing information in the years following the business combinations but this had to be balanced with the costs of providing such information.

Is investors' confidence a necessary assumption to foster high-quality financial reporting?

The reliability of information presented to users is key and subjective or soft information was of relatively little value

Françoise Flores thought the reliability of information was key for users. EFRAG had been told that any information that was subjective, soft, or that auditors or investors were not best placed to challenge, was disregarded by users. In the standard-setting process it is important to ensure that high quality data is provided to investors.

Anti-abuse clauses in standards can get in the way of presenting economic reality

Anti-abuse clauses in standards generally limit the ability of presenting economic reality. It is more appropriate to give auditors and enforcers the ability to challenge and exercise their judgement and the honest issuer can still reflect economic reality. This is more likely to increase investor confidence than anti-abuse clauses.

Confidence relies on transparency, objectivity and neutrality

Confidence also relies on transparency, objectivity and neutrality. Any form of bias in reporting is clearly detrimental to investors. In the earlier discussion on prudence she had found it interesting that Jesús López Zaballos linked it directly to confidence. There is also concern on the quality of data and the quality of earnings and users need to have good confidence in the quality of earnings as reported. There may be situations where asymmetry is appropriate in the recognition of gains and losses, particularly when the focus is on reporting good quality earnings. Sometimes, if there is a high degree of uncertainty, it may be better to have the good surprise later.

SMEs need additional help in providing good financial reporting

Jesús López Zaballos reported on his experiences with SMEs: he was frequently asked what information was good for companies listed on alternative investment markets to provide. These companies were frequently not covered by any analysts, which created an additional barrier in obtaining finance. In some countries, EFFAS members have created a special group of financial analysts together with stock exchanges, to help smaller listed companies structure their financial reporting.

The smaller a listed company, the more important financial reporting is

Françoise Flores agreed that financial reporting could be a burden on smaller listed companies. One of the questions EFRAG had asked in the past was whether differential disclosure regimes were appropriate, with perhaps lower requirements for smaller listed companies. Users had not been supportive of such an idea because, the smaller the company the more important financial reporting as there was less other information available about the companies besides the financial report.

Hans Hoogervorst thought that, for smaller listed companies, financial reporting was generally going to be less complex than for larger ones as the smaller listed companies are less likely to have complex transactions, such as defined benefit pension schemes or derivatives.

The expanded use of electronic information would help support analysts and investors

Hans Buysse suggested that the expanded use of electronic information would help support analysts, as was currently being looked at by ESMA.

The size of annual reports may continue to inflate

One audience member discussed the increase in the quantity of information, and wondered if this was caused by the demand of users. As non-financial information becomes compulsory, this may also inflate the size of annual reports. What initiatives can be taken to reduce the volume of reporting?

Information provided should be proportionate

Ugo Bassi believed it was important that information provided was proportionate, and of course information could be summarised where appropriate. He would not expect a further increase in requirements and there are no projects in this respect on the European Commission's agenda.

Jesús López Zaballos said it was important to know how to integrate Environmental, Societal and Governance issues in financial reporting, and how these impact company returns.

It was important that information provided was material and focussed

Hans Hoogervorst was generally supportive of integrated reporting and believed that most of the increase in the size of annual reports was not due to IFRS but extra information demanded, in particular by regulatory authorities. The time may come when the IASB and regulators work together to see how their requirements can be integrated. The IASB was working to help make it clearer what information was material or not. There are some multinational companies who have annual reports that are not overly long and have a clear message. Making annual reports shorter is actually more work for preparers in the short term due to the analysis required, but is beneficial in the long term. Javier de Frutos underlined that it is about the materiality of information.

New technology may help get information directly into the hands of users

An audience member supported the use of electronic information, but relatively little of the existing IFRS taxonomy appears to be actually used by investors. There were lots of disruptions on the supply chain of information to users, caused by new technologies which help get information directly into the hands of users. Electronic reporting helps by alleviating the burden on the supply chain of information. To increase the confidence in these new forms of reporting, action was needed from the European Commission to push to get more high quality information published digitally.

The parts of the IFRS taxonomy that were of most use were those that were comparable across companies

Hans Buysse agreed with this and emphasised the importance of making data available electronically. A limited number of taxonomy data points were used for analysis, because of the necessity of comparability.

Political will would be required for any move towards requiring digitisation

Ugo Bassi noted that any progress in this area would require the political will of the legislators and there were a number of different opinions on how quickly the move towards full digitisation should go.

Improved European level frameworks were not leading to a reduction in the requirements at a Member State level

Phillipe Danjou recalled that, when he was an enforcer, he had seen improvements in the framework for reporting at a European level but this had not resulted in a reduction of requirements at the Member State level. More harmonisation is needed.

The European Commission was trying to harmonise where possible and using regulations

Ugo Bassi said that the European Commission was trying to harmonise where possible, using regulations to avoid the transposition of directives. One example of this is the single rulebook, but it has been challenged by a few Members States that would prefer the use of directives.

Influence on standard setting

How can investors be more influential in the development of IFRS?

The IASB was always keen to engage with users and was aware they were in a different position to preparers

Hans Hoogervorst discussed the interactions of the IASB with users, noting that these regularly involved EFFAS. In standard setting, investors were generally in a different position to preparers. Preparers were extremely motivated to understand accounting standards and the impact of them. It was different with investors, and could be difficult for them to come to grips with accounting. To get additional input, the IASB was approaching users directly, both buy-side and sell-side. There were always IASB members with user backgrounds and the IASB had a Capital Markets Advisory Committee and an investor sub-committee of the IFRS Advisory Council. It was also developing an investor education programme.

Investors can engage with the European Commission on specific projects, including the evaluation of the IAS Regulation

Ugo Bassi reiterated the importance of user involvement in standard setting, and added that investors can also engage with the European Commission on specific topics. As an example of this, an evaluation was being carried out of the IAS Regulation, including a public consultation. All stakeholders were encouraged to participate.

EFRAG provides the availability for user involvement in standard setting and tries to work with the IASB to avoid duplication

Françoise Flores agreed that it could be a challenge to appropriately involve users in the standard-setting process but that it was very important it was done. The standard-setting process should provide the availability for user involvement. EFRAG worked in a shared process with the IASB and merges efforts where appropriate to get over the hurdles of availability and time of users and to avoid duplication.

The work with EFFAS was a model of how EFRAG wanted to develop interactions with users

The EFRAG User Panel was similar to the IASB Capital Market Advisory Committee and had some of the same members. The work with EFFAS was the model of what EFRAG wanted to develop, in which effort and results are shared. EFFAS reaching out to its members, and EFRAG providing technical support. In doing this, EFRAG knows that investors are interested in outcomes, not mechanics, and that short papers are important.

EFRAG aimed to reach as large a sample of users as possible

As well as with EFFAS, EFRAG also worked with other user organisations and aimed to reach out to as large a sample of users as possible. Investors can respond positively when asked to, but EFRAG needed to get the most in the minimum time available. This will remain in the new structure - and the new EFRAG Board will have the results of those outreach efforts available.

Panellist profiles

Ugo BASSI

Ugo Bassi is Director of Capital and Companies in the European Commission's Internal Market DG (DG.MARKT.F). As a senior manager, he has now four units under his auspices, covering important files related to the free movement of capital, corporate governance, anti-money laundering, accounting and financial reporting, audit, credit rating agencies.

A lawyer by profession, Ugo Bassi has been working in DG Markt for eighteen years, prior to which he gained considerable experience as "*Référendaire*" in the Court of Justice. He has headed three different units dealing with Internal Market in the area of public procurement, asset management and securities. Many of the policies under his charge were in direct response to the financial crisis but he has also managed teams covering the more traditional internal market issues.

Gérard de la MARTINIERE

A graduate of both the Ecole Polytechnique (1965) and Ecole Nationale d'Administration (1965) Mr de La Martinière is a French Treasury Official (Inspecteur Général honoraire des Finances).

After holding a number of positions in the French Ministry of Finance between 1969 and 1984, he served as Secretary General of the COB, the French securities and exchange commission (now the Autorité des Marchés Financiers) from 1984 to 1986, and was President of the Paris financial instrument clearinghouse (Chambre de Compensation des Instruments Financiers) from 1986 to 1988. From 1988 to 1989, he served as Executive Director of the Société des Bourses Françaises.

Mr de La Martinière joined AXA Group in 1989, where he was appointed CFO in 1993. He was member of the AXA Management Board from 1997 to 2003. After his election as FFSA's Chairman, he left AXA in May 2003. He was also Chairman of CEA (today Insurance Europe) from June 2004 until June 2008.

He is the author of *Assises nationales du financement du long terme*, published by Groupe Caisse des Dépôts in November 2011.

Mr de La Martinière is Board Member of SCHNEIDER Electric and AIR LIQUIDE and an Officer of both la Légion d'Honneur and l' Ordre National du Mérite.

Jesús LÓPEZ ZABALLOS

Mr Zaballos is currently the Chairman of EFFAS and Deputy Chairman of ACIIA.

He holds a PhD in Management & Business Administration from San Pablo CEU University, Madrid (1999), summa cum laude, and a Degree in Economics & Business Administration at Complutense University, Madrid (1985). He also has a Diploma in General Management (PDG) from IESE (1997). Since 1990, he has been a usual Lecturer and Visiting Professor in Seminars and specialised courses in several Universities and Business Schools.

He began his professional activity as broker in the Spanish Money Market in 1983. He subsequently held various positions as manager and executive in the Financial and Capital Markets departments as ARGENTARIA (actual BBVA from late 1991 to 2000).

In 2000, he founded Formación y Finanzas, S.L, a consultancy company of Financial and Training Advisory. He is currently the Chairman.

Since 2002, he has been the General Manager of the Training & Qualification School of the Spanish Institute of Financial Analysts (IEAF) and since 2007, the Director of its International area.

Since 2013, he has been founding partner of Aureo Wealth Advice EAFI, S.L, a wealth manager company registered in the Spanish regulator. In 2014, he has been appointed member of the Advisory Board of Docout, a specialised company in the outsourcing services, in business processes, records management and consulting, with high technological tools.

Hans HOOGERVORST

Mr Hoogervorst is a former chairman of the executive board, the Netherlands Authority for the Financial Markets (AFM), and a former chairman of the IOSCO technical committee. He was appointed as a co-chair of the Financial Crisis Advisory Group, a high level group of business leaders with experience of international markets, to advise the IASB and the FASB on their joint response to the financial crisis. He also served as Chairman of the Monitoring Board of the IFRS Foundation, oversight body of the IASB.

Between 1998 and 2007 Mr Hoogervorst held a number of positions in the Dutch Government, including minister of finance, minister of health, welfare and sport, and state secretary for social affairs. Prior to this Mr Hoogervorst served both as a member and senior policy advisor to the Dutch Parliament and the Ministry of Finance. He also spent three years as a banking officer for the National Bank of Washington in Washington, DC.

Mr Hoogervorst holds a Masters degree in modern history (University of Amsterdam, 1981) and a Master of Arts degree in international relations (Johns Hopkins University school of advanced international relations, majoring in international economics and Latin American studies).

Françoise FLORES

Françoise Flores has been Chairman of EFRAG since 1 April 2010.

Prior to joining EFRAG as Chairman, she was a partner of Mazars in France and one of the IFRS experts of the firm. In that capacity, she has been acting for several years as IFRS Technical Advisor to large European businesses (through Acteo, ERT and BUSINESSEUROPE). She has been a member of EFRAG TEG since April 2004.

Her IFRS expertise is backed up by over 20 years in controlling and financial reporting, of which 10 years as CFO, in the context of large and medium-sized international listed corporations.

Hans BUYSSE

Hans Buysse is a partner of Syncap Belgium, based in Brussels. SynCap Belgium is the Belgian Partner Firm of Clairfield International, a worldwide corporate finance firm that provides advisory services, mainly in cross-border mergers and acquisitions, to both international corporations and family-owned enterprises across an array of industries. Hans has more than 20 years banking and corporate finance experience. This includes buy side and sell side assignments, as well as MBO and IBO, within the energy & utilities sector, telecom, real estate and infrastructure. He also has extensive experience in structured finance, financial restructuring, strategic advisory, valuations and PPP. He was involved in most large Belgian PPP deals.

He started his career at KU Leuven, moved to Generale Bank in 1992 (Corporate Banking, Group Treasury (financial markets) and Central Credit Department). He cofounded the Corporate Finance division at Deloitte & Touche Belgium in 1997, worked as a partner for KPMG Corporate Finance up to 2007 and at NIBC Bank Belgium where he was head of Advisory.

Hans is vice Chairman of the Belgian Association of Financial Analysts. He is EFFAS Executive Management Committee member and Treasurer and XBRL Europe Executive Committee member. He is also member of the ESMA Corporate Reporting Standing Committee's Consultative Working Group.

He holds a master degree in Applied economics, specialised in finance, a master degree in management and a degree in Tax. He is a Certified European Financial Analyst (FSA accredited).