To the members of the International Accounting Standards Board (IASB)

Submitted electronically

Subject: Eumedion's response to IASB's 'Request for Views 2015 Agenda Consultation'

Ref: B15.26

The Hague, 23 December 2015

Dear members of the IASB,

Eumedion appreciates the opportunity to respond to your request for views on the 2015 agenda consultation.

Eumedion represents the interests of over 70 institutional investors, all of whom are committed to a long term investment horizon. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard accounting standards as a critical part of a global financial infrastructure, especially since investors are dependent on the quality of accounting standards for allocating their own and entrusted capital. Together our participants invest over € 4 trillion of capital in equity and corporate non-equity instruments.

This response to the IASB's agenda consultation also contains a number of views that the Trustees of IFRS Foundation may consider to be relevant in their current review of the structure and effectiveness of the IASB.

The previous agenda consultation resulted in many constituents calling for a 'period of calm' to digest certain improvements. This agenda consultation draws the attention to a number of active existing and potential future initiatives of the IASB. Even though the IFRSs can generally be regarded as state of art and of very high quality, Eumedion still sees room for many significant improvements to the

Standards. We also consider quite a number of potential improvements to be both important and urgent. In the meantime, there are and have been too many projects taking an excessive amount of time to complete. Eumedion would therefore like to express a call for a ‘period of acceleration’ to increase the pace at which the many and much needed improvements are brought to the users of financial statements.

We would like highlight the following suggestions:

- An initiative that identifies how the Standards could accommodate the information needs of investors in entities that engage in Mergers & Acquisitions.
- New disclosure requirements on sources of dilution in shares outstanding.
- New disclosure requirements on financial debt and liquidity.
- A new requirement to disclose ‘proportionate shares’ to help meet the objectives of IFRS 12 Other Entities.
- Incorporate guidelines like ESMA’s for the use of Alternative Performance Measures into the Standards.

Please find below our detailed response to the individual questions in the consultation.

If the IASB would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

Rients Abma
Executive Director

Eumedion
Zuid Hollandlaan 7
2596 AL THE HAGUE
THE NETHERLANDS

The balance of the IASB's projects
1 The IASB's work plan includes five main areas of technical projects: (a) its research programme; (b) its Standards-level programme; (c) the *Conceptual Framework*; (d) the Disclosure Initiative; and (e) maintenance and implementation projects. What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

We consider all five areas as validly competing for the resources of IFRS Foundation. We are pleased to observe that the quality of the standards which are produced by the IASB is generally very high. However, we also observe that many improvements take a lot of time, and there are too many examples of improvements taking excessive time before they become effective.

Even though it may be tempting to fundamentally overhaul an entire standard and solve certain challenges once and for all, there may be merit in weighing which less complex improvements can bring similar benefits to financial reporting at a faster pace. There are many issues where investors already benefit from relatively small targeted amendments. Eumedion suggests that this justifies the allocation of more resources to maintenance and implementation projects.

Research projects
2 The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33. Should the IASB: (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding. (b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not? (c) remove any other projects from its research programme?
3 For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

Response to question 2(a):

Eumedion has four suggestions for IASB's research agenda: 'Mergers & Acquisitions', 'Sources of dilution in shares outstanding', 'Disclosures on financial debt', and 'Disclosure of 'proportionate shares' as part of IFRS 12 Other Entities'.

1. **Mergers & Acquisitions**

   Mergers & Acquisitions can have a profound impact on the financial statements and often are rather difficult and very time consuming to analyse for investors. In practice, the Standards only partly result in meeting the information needs of investors on current and past M&A activity. We are convinced that the Standards can be improved to help meet valid investor needs to better understand the results of the combined entity and to better assess the performance of past acquisitions. Today, investors are heavily dependent on the availability and quality of *pro forma* information. Even though the Standards suggest providing pro forma information, too often it is not provided, or the information is not of sufficient granularity and the key assumptions remain unknown.

   Pro forma information often is not available

   The current IFRS 3 Business Combinations allows entities to easily forego on disclosing pro forma information: a simple explanation why it was 'impracticable' to produce is under the current IFRS 3 sufficient.[1] This results in many cases where pro forma information currently is not provided. This shifts the burden to many individual investors, who individually of course are in a much worse position to produce the combined entity's pro forma information, than the reporting entity itself. We strongly believe that IFRS 3 should be revised in a way that for material acquisitions pro forma information is required. This improvement could also be effectuated as part of the active Post Implementation Review of IFRS 3.

   Pro forma information is not granular enough

   The Standards only require very limited line items: revenue and profit or loss. These two line-items do not provide the necessary insight for investors. Investors need a granularity that is similar to the level of detail already provided in the primary financial statements of the entity. This improvement could also be effectuated as part of the active Post Implementation Review of IFRS 3.

   Measurement of Pro forma information lacks rigour

   The Standards only provide very high level guidance on how to compute pro forma information. Pro forma information therefore lacks the generally aspired measurement rigor associated with the Standards. The lack of rigor prompts some auditors to refuse the auditing of pro forma

[1] IFRS 3 Business Combinations paragraph B64(q).

information.[2] What can investors expect from enforcement without sufficient rigor? The current Standards leave investors with inconsistent application and uncertainty. The IASB could help preparers, auditors and investors by exploring what measurement guidance can be provided to address inconsistent application. In the meantime it could be clarified that entity specific assumptions on pro forma information are part of those accounting policies that should be considered significant.

Prior year comparative pro forma information

The request for prior year comparative information also surfaced in the Post Implementation Review ('PIR') of IFRS 3 Business Combinations:

Area of focus	Assessed significance	Possible next steps
Pro-forma prior year comparative information.	Low	Depending on the feedback received from the 2015 Agenda Consultation, we could start working on this issue. Some participants suggested investigating whether it would be practical to prepare this information.

The prior year comparison is definitely of interest for investors, but we agree that the assessed significance is not as high as the current year pro forma information issues identified in the previous paragraphs.

Other information needs related to M&A

The importance of information on future, current and past acquisitions is underlined by the fact that it was selected as one of the priorities within the annual Eumedion Focus Letter 2016 to the Boards of all Dutch listed companies.[3] Some of these needs clearly fall outside the scope of IFRS, but Eumedion does see an important role for the Standards to serve a stewardship objective as well.[4] For example, investors are keen to understand the dilutive effects of M&A, the expectations for the combined entity that justified the price paid, and post transaction reviews that compare and contrast actual performance with those expectations, both for significant individual acquisitions and for the pursued M&A strategy as a whole. We therefore regard both the importance and urgency of this project as high.

We suggest that the IASB completes the PIR of IFRS 3 ambitiously by suggesting improvements that accommodate as many of the identified investor needs as possible. The topic is material enough to also justify a separate research project that identifies which information needs remain to be covered by other future improvements to the Standards.

[2] https://home.kpmg.com/content/dam/kpmg/pdf/2014/09/guide-disclosure-checklist-sept14.pdf.
[3] http://eumedion.nl/en/public/knowledgenetwork/speerheadsletter/2016-focus-letter.pdf.
[4] Eumedion explained in its recent response to IASB's Exposure Draft '2015/3 Conceptual Framework' why stewardship should be included in the objective of financial reporting: http://www.eumedion.nl/en/public/knowledgenetwork/consultations/2015-11-response-to-ed-conceptual-framework.pdf.

2. **Sources of dilution in shares outstanding**
   Share ownership entitles investors to a proportion of (future) distributions. It is essential for investors to understand how existing agreements could change the proportion of the distributions they are entitled to. Today, the (potential) effects of such agreements are often not obvious at all. Examples of causes of future changes in shares outstanding are any existing convertible bonds, management options, warrants, M&A, other agreements that settle in issuance of the entity's shares, either at the discretion of management or a third party. Often, investors only are provided with a single point estimate called 'weighted average fully diluted shares outstanding'. However, investors are in need of a more complete overview of all (potential) sources of dilution per year end, and what the main characteristics are of these sources. The scope should include instruments that, like common equity, share without limit in the upside potential of the enterprise. Investors also need a scenario analysis that includes the maximum potential dilution of these instruments.

   Investors would also benefit from a historic perspective of how a hypothetical 1% share ownership in the company accreted or diluted year-over-year. Information on past and future dilution of ownership is not only important for assessing the value of the entity; it may also help highlight governance issues. We regard both the importance and urgency of this project as medium.

3. **Disclosures on financial debt and liquidity**
   The Standards could be improved to help investors better understand the capital structure of a company. We observe a rather diverging practice in disclosing relevant information on gross debt in the financial position. Essential information often is missing. Given the increasing attention of policy makers worldwide to make companies less dependent on bank financing, the so-called process of 'disintermediation' whereby investors directly provide capital to companies, rather than investing in banks that provide capital to companies, there is an important role for the IASB to facilitate this strongly desired process of disintermediation. Disintermediation would be facilitated if the Standards were to require a number of disclosures on financial debt that are important for the capital allocation decisions of investors:
   - An aggregated overview of all nominal debt maturities per annum. This schedule should contain the nominal amounts converted to the reporting currency.
   - A reconciliation between the aggregated nominal and the aggregated carrying amount of the debt as reported in the statement of financial position.
   - A diagram that represents the most relevant elements of the reporting entity's group structure, that includes the relevant subsidiaries and those entities where the financial debt of the group is residing. Such diagrams already are a common feature in most offer documents for companies that issue corporate debt. However, group structures do develop over time and investors are in need of up to date characteristics of the group structure to evaluate the creditworthiness of the entity.

- A general description the hedging policy of the reporting entity related to its financing activities.
- The aggregated carrying amount on the balance sheet of the assets pledged to providers of financial capital.

Investors would also benefit from an overview of the characteristics of the individual elements that add up to the entity's financial debt, including bank financing. Characteristics of importance to investors are:

- issuing entity
- maturity
- currency
- coupon
- issue date
- carrying value
- nominal value
- change of control clauses
- description of the assets pledged (if any) including the carrying amount of those assets on the balance sheet
- financial covenants thresholds
- the actual performance of the reporting entity on the covenants conform the definition specified in these covenants. Even though some companies already provide adequate information on bank covenants5, we consider it appropriate for the Standards require disclosures on bank covenants. The Netherlands Authority Financial Markets recently completed a study on how well companies disclose their covenants and identified good practices[6].

The ED/2014/6 Disclosure Initiative (Proposed amendments to IAS 7) already drew the attention to potential improvements to cash disclosures. And indeed, there is a need for disclosure requirements on liquidity. Investors need to know what kinds of liquidity are available to the reporting entity's parent company, and what restrictions apply. Not only the effects of taxes should be taken into account, but also dividend leakage to outside shareholders for those subsidiaries that are partly owned, restrictive covenants, loans, bonds, shareholder agreements, and estimated liquidation costs of making liquid any cash equivalents.

We regard both the importance and urgency of this project as medium.

[5] http://www.eumedion.nl/en/public/knowledgenetwork/publications/evaluation-2011-proxy-season.pdf.
[6] http://afm.nl/nl-nl/professionals/nieuws/2015/okt/rapport-in-balans – download report 'Bankconvenanten' (Dutch language only).

Response to question 2(b):

We agree with removing the projects ‘foreign currency translation’ and ‘high inflation’ from the research program.

Response to question 3:

We consider none of the mentioned projects to be of low importance or low urgency as we expect all projects to have the potential to result in improvements to the Standards.

Importance	Urgency	Project
Medium	Medium	(a) definition of a business;
High	**High**	**(b) discount rates;**
High	**High**	**(c) goodwill and impairment;**
High	**High**	**(d) income taxes;**
High	**High**	**(e) pollutant pricing mechanisms;**
High	**High**	**(f) post-employment benefits;**
High	**High**	**(g) primary financial statements;**
Medium	Medium	(h) provisions, contingent liabilities and contingent assets;
Medium	Medium	(i) share-based payment.
High	**High**	**Eumedion suggestion 1: Mergers & Acquisitions**
Medium	Medium	Eumedion suggestion 2: Sources of dilution in shares outstanding
Medium	Medium	Eumedion suggestion 3: Disclosures on financial debt

Ad (a) Definition of a business

This project is based on the feedback of the PIR of IFRS 3 Business Combinations. Although we consider expedient implementation of feedback on PIRs to be important, we hope the Board can alleviate identified problems with targeted improvements. We therefore do not expect such improvement to require too many resources.

Ad (b) Discount rates, and (f) Post-employment benefits

The liabilities resulting from Post-employment benefits are scrutinised by investors. The measurement in the financial position should reflect the economic substance of such liabilities. The recent ED Conceptual Framework defines a liability as ‘a present obligation of the entity to transfer an economic resource as a result of past events’. Eumedion raises the question whether future salary rises - insofar there is no contractually binding commitment - represent a present obligation, as IAS 19R currently requires. Why should the consequences of a discretionary salary rise be attributed to a different period than the year it is granted? Is there in practice truly such a strong economic compulsion to pay salary rises indefinitely?

We also support the initiatives to explore how the Standards can better accommodate hybrid pension schemes and what discount rate is appropriate, also to avoid inconsistent application in practice.

The discount rate project could address the conceptual issue in what cases a discount rate should reflect the time-value of money-only, and in what cases a risk premium on the time-value of money-only is justified or required.

Eumedion regards both projects to be of high importance and urgency.

Ad (c) Goodwill and impairment

We would like to highlight that we are in favour of the existing impairment-only model. We regard the impairment-only model to result in useful information as it helps investors in assessing to what extend the past acquisition strategy was successful. Amortisation of goodwill would hamper this insight. Therefore, we attach no priority at all to researching specifically the amortisation model for goodwill. However, we do see some room for improvement.

1. Eumedion believes that the recognition of the rather fictive ‘other acquisition related intangibles’ like ‘customer lists’ should be abolished. Not only is the valuation attached to these acquisition related assets extremely judgmental, we also consider the subsequent amortisation of these intangible assets as distorting the analysis of those capital expenditures that are recognised as intangibles assets in the normal cause of business.

2. We would like the IASB to explore practical expedients for judging whether an impairment of goodwill is necessary. One practical expedient for a goodwill impairment test could be to require companies to compare and contrast the key original expectations that justified the acquisition price paid, with the realised numbers. From a stewardship perspective, we question the use of a full Discounted Cash Flow model for impairment testing as the many parameters can easily mask disappointing performance for quite some time.

3. The amount of goodwill in the financial position hardly ever is allocated to specific acquisitions. For the purpose of stewardship, we would like the Standards to require a breakdown of the amount of goodwill in the notes, so investors become aware which material past acquisitions are still represented in the measured amount of goodwill. Such overview could also include the original amount of goodwill recognised at the time of the acquisition.

Eumedion sees significant room for improvements to the existing accounting for goodwill. Therefore, we regard this project to be of high importance and urgency.

Ad (d) Income taxes

Taxes often represent very material expenses and cash out flow for entities. Investors often struggle to find a reasonable basis for making assumptions about future taxes. Accounting for income taxes in the financial statements falls short in a number of ways. Investors need more information than just the composition of tax assets and tax liabilities: we need to know management's assessment of when they are expected to reverse over time. Tax liabilities should also take into account the time-value of money, as opposed to the current requirement to measure them undiscounted. Ideally, it would include the disclosure of management's best estimate of the expected future tax expense rate, and cash taxes paid rate.

The importance of better information on taxes is underlined by the fact that it was selected as one of the priorities within the annual Eumedion Focus Letter 2016 to management of all Dutch listed companies. Therefore, we regard this project to be of high importance and urgency.

Ad (e) Pollutant pricing mechanisms

We consider the presence of emission trading schemes as a lasting phenomenon of increasing importance. The Standards need to be updated to prevent inconsistent accounting practices. Therefore, we regard this project to be of high importance and urgency.

Ad (g) Primary financial statements

We would attach high priority to the primary financial statements research project, which will examine the purpose, structure and content of the primary financial statements and address how to report on performance.

We hope the project will also result in primary financial statements in which the interlinkage between the statements is enhanced. Currently, it is not always possible to understand which line-item in the financial position is corresponding with a line-item in, for example, the cash flow statement. If practically possible, definitions and level of granularity should be synchronised within the primary financial statements.

We understand that the issue for performance reporting is quite difficult to resolve with detailed rules given that there are endless varieties of business models. We therefore do not expect that a solution is likely to be found if it were based on the IASB defining business models in its standards. Instead, we prefer the approach as described in the Exposure Draft on the Conceptual Framework. It highlights the relevance of 'business activities' in paragraph BC6.512, as opposed to reverting to pre-defined business models as some have suggested. There is great merit in drafting Standards that adhere to business activities of which the nature can be distinguished by a matter of fact, as opposed to just an opinion, or management intent, or as opposed to making arbitrary judgments on pre-defined business models the starting point for reporting. These latter alternatives are likely to result in less comparable reporting, and much more prone to manipulation of accounting outcomes.

It would be beneficial if the Standards could add rigour to common practices on performance. For example by adding rigour to non-GAAP measures like ‘operating profit’, and by making the distinction between organic growth at constant currencies and growth from M&A activities. We regard this project to be of high importance and urgency.

Major projects	
4	Do you have any comments on the IASB’s current work plan for major projects?

We fully support the IASB in finalising the leases project as intended, the disclosure initiative and continue at the highest pace possible the progress on the insurance contracts project. We do caution the board for agreeing with too distant future effective dates.

In June 2015, ESMA issued guidelines for the use of Alternative Performance Measures (APMs). We would like the IASB to explore as part of the Disclosure Project whether some, or all, of ESMA’s guidelines should/could be included in the Standards. The purpose of this initiative would be to raise the level of credibility of APMs presented in the financial accounts globally. ESMA’s research clearly indicated there is a need to address the credibility of APMs. Many investors invest beyond the European boundaries. Investors therefore would benefit from IFRS requiring any APM to meet the criteria such as those specified by ESMA.

Maintenance and implementation projects	
5	Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders’ needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

We applaud the outreach activities initiated by IFRS Foundation. In particular the ‘Investor Perspectives’ published on the website, and some in-house workshops for example on IFRS 15 Revenue Recognition which some of our participants received. Such activities help investors to understand how their analysis may be affected by upcoming improvements to the Standards.

Level of change	
6	Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

Even though Eumedion acknowledges that there are many justifiable reasons why it takes time to set standards, we do observe there are just too many examples of projects taking an excessive amount of time to complete and to become effective. Eumedion wonders whether the due process adopted by the IASB is too sensitive towards the desires of certain special interest groups to whom any delay (or failure of the project) is perceived as beneficial.

On the positive side, we are pleased to see that the aspirations to produce standards that are converged with US GAAP have now become less likely to cause undue delays to the Standard Setting process of the IASB. The IASB needs to accommodate the valid demands of many stakeholders, primarily from those jurisdictions that already have adopted IFRS. The IASB should remain careful not to allow any single jurisdiction to dominate the agenda of the IASB as it is likely to result in alienating the other jurisdictions.

Delays in projects tend to result in a higher risk of a growing asymmetry in feedback along the way: delays tend to bolster the opponents of standards, while proponents' enthusiasm is hampered by the benefits of improvements fading into the future. Eumedion suggests that the Board and its Trustees rethink the process in order to effectively increase the pace of all improvements to the Standards.

If a more sequential planning of certain initiatives would improve the 'time to market' of each individual project, we would favour such approach above many parallel projects progressing at a slower pace.

Eumedion has the view that Post Implementation Reviews should have an important role in the Standard Setting process. We were pleased to observe that many market participants provided detailed feedback how IFRS 8 Operating Segments fell short of investors' needs and how it could be improved. Unfortunately, the tentative thoughts of the IASB on how to address the raised issues are likely to result in necessary, but rather limited improvements only.

We would consider a new IFRS 8 requirement to disclose a minimum number of the, through the eyes of management, most important line-items as a major improvement. Such a requirement would leave intact the current management perspective as it does not specify which line-items, while it would respond to investors' calls for more granularity.

Quite disappointing is the lack of pace: the PIR of IFRS 8 was completed in July 2013, an exposure draft with the limited amendments still has not been finalised. We encourage the IASB to be as ambitious as possible in using PIRs to further improve the Standards. We also suggest that more priority is given to the expedient implementation of improvements following future PIRs.

Any other comments	
7	Do you have any other comments on the IASB's work plan?

We support the work plan of the IASB. However, one project we consider as taking excessive resources with limited chance of fundamental improvement to financial reporting is the project of rate-regulated activities. The examples we have seen to justify a standard on rate-regulated activities often involve unrealistically simple regulatory environments. Regulatory environments often are notoriously complex and subject to interpretation, and negotiations between companies and the regulator. Regulatory environments also often are subject to change. Even if a future standard on rate-regulated activities is restricted to the most certain and enforceable frameworks, most companies that engage in rate-regulated activities would only be able to report only a portion of their activities under a potential standard. It therefore would in most cases only solve for part of the (perceived?) problem. The alternative of a standard that would include most regulatory environments is likely to result in an excessive number of companies reporting highly judgmental phantom assets and profits, which are most likely to result in interpretation issues for investors. It is our observation that preparers in many cases have not yet gone the extra mile in helping investors understand their regulatory environment. We have great difficulty seeing any other future for a standard on rate-regulated activities than one that would improves disclosures. We therefore suggest the IASB to limit ambitions, priority and resources for this project.

Disclosure of 'proportionate shares'

Our request is to require disclosing 'proportionate shares' as part of the existing requirement under IFRS 12 Other Entities to explain the effect that other entities have on the group as a whole. The necessity for disclosing proportionate shares was detailed in a Eumedion position paper on this topic.[7] Our request at the time did not result in widespread follow-up in 2011.[1] The Netherlands Authority Financial Markets recently completed a study and highlighted both significant shortcomings in general, and a good practice for Koninklijke Vopak NV.[8] Since the measurement of proportionate shares is not highlighted in IFRS 12, very few companies are aware of this very efficient means to (in part) meet the objective of IFRS 12. We would therefore request the IASB to explicitly explore a requirement to disclose proportionate shares in the upcoming Post Implementation Review for IFRS 12.

[7] http://www.eumedion.nl/nl/public/kennisbank/position-papers/position_paper_full_consolidation_of_partly_owned_subsidiaries_requires_additional_disclosure.pdf.

[8] http://afm.nl/nl-nl/professionals/nieuws/2015/okt/rapport-in-balans – download report 'Toelichting op belangen in ondernemingen' (Dutch language only).

Frequency of Agenda Consultations	
8	Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not? If not, what interval do you suggest? Why?

We do not agree. The current three years interval already effectively results in an interval of four years, as the previous agenda consultation dates from July 2011. Indeed, some parts of the agenda are likely to be of a fixed nature for a longer period than three years. However, we hope and expect that the pace of progress warrants a valid need for IASB to seek input from stakeholders for making (or revisiting) choices in the agenda every three years. For example, the insights provided by the research agenda are likely to require new choices for agenda priorities, and new research projects, hopefully much sooner than the proposed 5 years.