A brief look into our Investors in Financial Reporting programme

In December 2014 the International Accounting Standards Board (IASB) launched the Investors in Financial Reporting programme. In anticipation of its one-year anniversary we asked financial journalist Liz Fisher to look into its impact and effects on some of the organisations that originally joined.

It’s good to talk

The Investors in Financial Reporting programme was established to increase the interaction between the IASB and the buy-side investor community. Now that almost a year has passed since its launch, the IASB and investors both assess its impact.

Stakeholder feedback is one of the most essential ingredients of the standard-setting process; Standards are shaped by it and projects have, on occasion, changed direction because of it. The IASB goes to considerable lengths to consult with its constituents in a range of ways, from the formal Discussion Paper and Exposure Draft process to informal conversations, open round-table discussions and detailed field testing.

Some sections of the stakeholder community, though, have always been easier to reach—and more willing to provide input into the standard-setting process—than others. Historically, preparers have always been closely engaged with the IASB but generally users less so—and of the user community, the buy-side (asset managers and owners) have been hardest to reach of all.

The IASB, along with accounting standard-setters around the world, has always actively sought out the views of buy-side and sell-side investment professionals, but with mixed success; it has generally been the case that most of the input received has been from sell-side analysts. In December 2014, the IASB concentrated its efforts with the launch of its Investors in Financial Reporting programme, with the intention, as IASB member Pat Finnegan puts it, to ‘pull the people from the sidelines into the debate’.

The launch of the Investors in Financial Reporting programme in 2014

The aim of the programme is to increase the IASB’s interaction with the buy-side community in particular and to make that interaction more effective, in order to make sure that International Financial Reporting Standards (IFRS) meets the information needs of investors around the world. Ten investment firms signed up to the programme in its early stages and a further four joined in October this year.

Fourteen firms are now signed up to the programme:

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<th>Participants in the launch of the programme</th>
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<td>Allianz Global Investors</td>
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<td>Henderson Global Investors</td>
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<td>APG Asset Management</td>
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<td>Hermes Investment Management</td>
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Those that sign up to the programme make a series of commitments:

- senior representatives from the firm regularly meet with Board members or senior IASB staff to discuss relevant issues;
- the firms provide executive-level support for their participation in the development of Standards; and
- they provide a point of contact between the firm and the IASB to allow for the efficient distribution of information.

In return, the IASB provides a dedicated Board member and focussed investor education sessions.

**Hurdles to engagement**

There are many reasons why the buy-side analyst community has not always contributed fully to the standard-setting debate in the past; time pressure is a significant barrier, as is the fact that engagement with standard-setters is a cost without direct associated revenue. But there are other hurdles. Jed Wrigley, Director of Accounting and Valuation at Fidelity Worldwide Investment, one of the firms to sign up to the programme, says that the standard-setting process itself can be frustrating for some users:

*You’re engaging in a debate about something that won’t be implemented for three years. And while users can engage at a conceptual level and on the important issues at an individual Standard level, you can rapidly find yourself getting into the minutiae of Standard-setting, which is only of interest to the most enthusiastic of preparers.*

Gunnar Miller, Managing Director at Allianz Global Investors, another participant, puts it slightly differently: ‘It’s frustrating because the process of standard-setting is often more about the footnotes than it is about the Standard itself’.

Both the IASB and the investment firms involved in the programme agree, though, that a closer relationship would benefit both. The Statement of Shared Beliefs, considered central to the programme, makes the point that high-quality, transparent financial reporting is fundamental to building trust in the capital market and to making investment decisions. In other words, the efficient running of capital markets should be seen as part of the day job of any responsible investor.

‘One of the reasons we signed up was because it is in the interest of our investors to have good quality company reports,’ says Jed Wrigley. ‘The greater the user involvement, the greater
confidence users can have in the standard-setting process, which means that the final Standards are of better quality from a shareholder perspective.’

**In-depth conversations**

The IASB has seen more detailed input from investors as a result of the programme. Its access to the buy-side analyst community has ‘greatly improved,’ says IASB member Stephen Cooper, as has the quality of the debate and the rate of formal responses from the buy-side community to consultations. He adds that he has been surprised at the diversity of views among the analyst community: ‘Some are concerned about volatility, for example, while others say that volatility isn’t a problem as long as they can explain it’.

The most welcome benefit, though, has been the opportunity to educate and explain the Board’s reasoning and approach, and there have been occasions when an analyst has changed their view on a proposed change to a Standard after discussion with the IASB. ‘We want them to better understand the proposed changes to Standards,’ explains Barbara Davidson, Principal, Investor Liaison at the IASB. ‘That way there is less of a knee-jerk reaction to our proposals, and more of an in-depth conversation.’

Pat Finnegan agrees with this opinion:

> The more sunlight we can shine on the Standards, the better. As a Board we have undertaken extraordinary change, such as bringing operating leases onto the balance sheet, by raising awareness and we need to maintain that. The world is changing rapidly and five years from now, accounts will look very different. Firms need to be aware of what’s going on. If you’re not up to speed, it will cost you.

Jed Wrigley agrees that there is ‘a significant benefit there for buy-side analysts to engage’, particularly when a Standard is likely to have an impact on specific sectors. ‘You get detailed knowledge out of having that debate with the IASB. It tells you something of the economics of the sector which goes beyond what you can see elsewhere’

Gunnar Miller also believes in this collaboration. He says:

> Things are definitely moving in the right direction. It has been felt in the past that standard-setters are tone deaf to what users think and feel, and that their pronouncements come down from high on stone tablets. This programme brings a real-world connection between standard-setters and analysts and if the result is more consensual, better Standards, it has done the job.