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12 décembre 2016

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Bruce Van Barthold,
animateur

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Introduction

Patrick de Cambourg,
Président de l'Autorité des normes comptables (ANC)

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Problématique vue par l'IASB

Philippe Danjou,
ancien membre du Board de l'IASB

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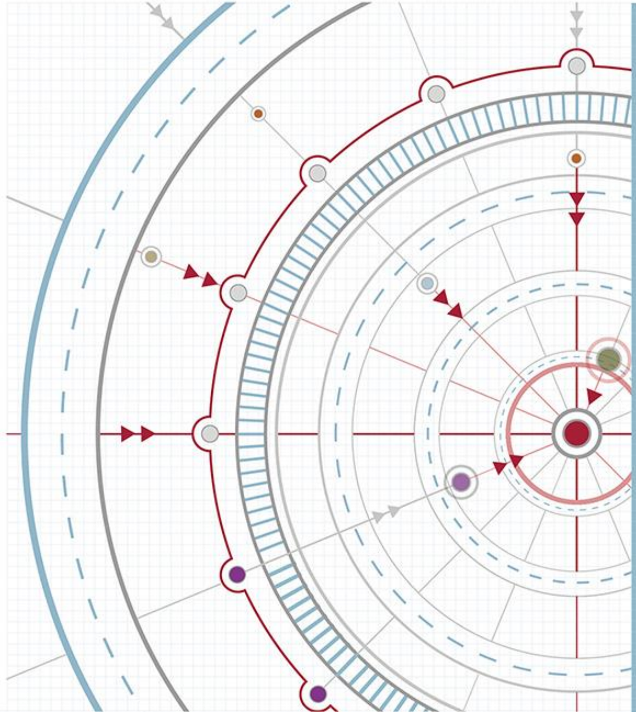

ETATS GENERAUX DE LA RECHERCHE COMPTABLE

Paris, le 12 décembre 2016

Philippe Danjou, former IASB Board Member

Quel est le problème ?

- Volume des rapports annuels -“Disclosure overload” (forum tenu en Janvier 2013)
- Hétérogénéité du niveau de détail des états financiers de synthèse, au premier rang desquels le compte de résultats
  - IAS 1 est très peu prescriptif quand aux informations à fournir
  - Difficile de comparer / comprendre la performance des entreprises sans étudier de façon approfondie les détails fournis dans l’annexe
- Recours de plus en plus fréquent à des indicateurs non définis par l’IASB (“non GAAP measures) au sein même des états financiers
- Développement du “reporting” électronique

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Un commentaire personnel

- La communication sur la performance financière doit être envisagée par réfèrence aux objectifs des états financiers:
  - Les destinataires de l’information sont définis par le Cadre conceptuel de l’information financière
- L’information sur la performance financière ne peut rendre compte de l’intégralité de la performance économique, environnementale et sociétale !

Better communication

UN NOUVEAU THEME CENTRAL POUR LES TRAVAUX DU BOARD

A central theme for 2017-2021

- The theme of *Better Communication* in financial reporting will include work on:
  - primary financial statements
  - the disclosure initiative, including principles of disclosure
  - the IFRS Taxonomy™
  - materiality
- The scope of some of these projects, such as primary financial statements, is still being developed. Other topics, such as materiality, are more advanced.

Primary financial statements: Initial scope

Likely

- Structure and content of statement of financial performance (P/L)
  - Additional line items
  - Subtotals
  - Disaggregation
  - Alternative performance measures
- Evaluating whether there are problems with
  - Statement of cash flows
  - Statement of financial position
- Assess the implications of digital reporting

Unlikely

- Defining a single measure of performance
- Statement of changes in equity (considered in Financial instruments with characteristics of equity project)

Principles of Disclosure—Discussion Paper

Why

- Requests for the Board to develop presentation and disclosure principles that apply across IFRS Standards.
- Purpose is to:
  - help the Board set better disclosure requirements; and
  - enable preparers to make better judgements about disclosures.

Output

- Discussion Paper
  - covers overall principles and specific issues.
  - ultimate goal is to produce:
    - the basis for a new or revised general disclosure Standard for preparers (IAS 1, currently);
    - drafting guidance for the Board for its internal use in setting disclosure requirements.

Other topics on better communication

Other topics:	
Materiality	Part of the disclosure initiative The object of this project is to help preparers, auditors and regulators to use judgment when applying the concept of materiality
Standards-level review of disclosures	Scope of review will be determined once we have received feedback on the Principles of Disclosure Discussion Paper

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Problématique vue par le FASB

Larry Smith,
membre du Board du FASB

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MESURES DE LA PERFORMANCE : UNICITÉ OU MULTIPLICITÉ DES DESTINATAIRES ?

ORGANISATION INTERNE ET STRATÉGIES DE COMMUNICATION FINANCIÈRE DES ENTREPRISES

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Les indicateurs de performance communiqués par les entreprises (Non-GAAP Financial Measures) sont-ils représentatifs d’une gouvernance stratégique ?

Catherine Kuszla, Professeur des Universités, Université de Paris Ouest Nanterre

& Lionel Escaffre,

Professeur des Universités, Université d’Angers

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Débat

- **Catherine Kuszla** (Université de Paris Ouest Nanterre)
- **Lionel Escaffre** (Université d'Angers)
- **Philippe Capron** (Veolia)
- **Jean-Philippe Dorp** (CFA Institute)
- **Hervé Hélias** (Mazars)

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Grand témoin

Roger Marshall

FRC

Questions / réponses

- **Catherine Kuszla** (Université de Paris Ouest Nanterre)
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INVESTISSEURS VS
AUTRES PARTIES PRENANTES ?

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Fondements théoriques de la représentation comptable de la performance dans une approche territoriale et parties prenantes

Benoit Pigé,
Professeur des Universités

Une vision simplifiée : le profit

- Une mesure de l'efficience dans la gestion des ressources
  - Qui repose sur les prix du marché
  - Qui suppose que les externalités sociales et environnementales sont valorisées
- Une séparation de la sphère économique – matérielle - et de la sphère psychique

Le concept de territoire

- Un construit
- Une communauté
- Des normes (*institutions* en anglais)
  - Qui régissent le *vivre ensemble*
  - Historiques, géographiques, légales, culturelles, coutumières, religieuses
  - Qui ne sont pas nécessairement harmonieuses

Les parties prenantes

- Des attentes diverses
  - Qui ne s’expriment pas nécessairement par des prix
  - Qui sont parfois conflictuelles
- Une représentation imparfaite
  - Des rapports de force
  - Parfois une incapacité à être représenté / à existe dans un monde globalisé

- Un fait
  - La notion de performance est dépendante de la culture dans laquelle elle s'exprime
- Une exigence
  - La contribution au vivre-ensemble d'une communauté
- Une complexité
  - Des principes communs (internationaux)
  - Des déclinaisons locales (territoriales)

Une approche matricielle

- La définition des principes
  - Au niveau global (international)
  - Par une confrontation entre les représentants de la diversité des parties prenantes
- Les standards d'application
  - Au niveau des territoires
  - En intégrant les interactions entre les différentes normes (formelles et informelles) internationales et locales

Merci de votre attention

Débat

- **Benoit Pigé** (Université de Franche Comté)
- **Denis Lesprit** (CNCC)
- **Marie-Pascale Peltre** (SFAF)
- **Bertrand Perrin** (Vivendi, IFRS IC)

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Andreas Barckow,
DRSC

Questions / réponses

- **Benoit Pigé** (Université de Franche Comté)
- **Denis Lesprit** (CNCC)
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MESURES DE LA PERFORMANCE : À QUELS HORIZONS ?

FAUT-IL OU PEUT-ON INTÉGRER LA DIMENSION LONG TERME ?

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Normes comptables et prudentielles des intermédiaires financiers au regard de l'investissement à long terme

Sandra Rigot,

Maître de conférences en économie,

Université de Paris Nord

Global Research context – Issues

- **Paradox**: Weak investment and plentiful savings
- Insufficient capital investment = a major obstacle to economic growth for 30 years
- **The wide range of regulatory frameworks of financial intermediaries impose varying degrees of constraints and that evolve over time** :

  Prudential banking and insurance regulation (Basel III & Solvency II)

  Accounting regulation (IFRS standards)

Issues: Could the new requirements be in danger of hindering long-term investment financing?

Global Research context – Issues

- **Objective and Research interest :**
  Identify impacts of those reforms on the intermediation activity of banks and insurance companies (lending and asset allocation)

Data and Methodology

Data : A qualitative approach: A representative European sample

Methodology: The findings from these surveys are analysed in conjunction with the academic studies examined in our review of the literature

Main results :

- IFRS accounting affects funding for long-term investment in a variety of ways, depending on the activities in which banks and insurance companies engage.
- Current prudential rules are likely to prove even more detrimental to long-term investment financing

A new definition of Long term Investment

3 facets of LT invest.	Facet 1 Nature of LT project	Facet 2 LT financing	Facet 3 LT behaviour
Sub-facet 1	Goal *LT/Sustainable growth*	Nature of resources *LT and/or stable savings*	Investment strategies *(contrarian, low turnover, minimum 5-year holding period for a financial asset)*
Sub-facet 2	Nature of assets and agents to be financed *Investment in tangible and intangible assets* *LT>> above all ST, MT*	Instruments/vehicles *Ad hoc LT*	Corporate governance *partnership-based*
Sub-facet 3		Providers of funding *LT investors* *Development banks* *Public investment banks*	

The impact of IAS 39 on lending and asset allocation

- **For 54% of respondents, Fair value would have a negative impact on long-term investment funding**
- **Effects of IAS 39:**
- **For Bank (lending)**: IAS 39 has not affected long-term financing by banks.
- **For insurers (asset allocation):** Short bias (IAS 39 –IFRS4 phase 2**)**
  - Financial statements:
    - **Fair value accounting has introduced volatility into insurance companies' financial statements.**
  - Behaviour of insurance fund managers:
    - **The holding period for long-term assets has become shorter**
    - **Procyclical behaviour in that they adjust their investment strategies to reflect changes in the market value of assets.**

Potential effects of IFRS 9 on long-term lending by banks

	Loan measurement	Loan provisioning
Changes in standards	SPPI test applied to loans The application guide sets out the criteria for application to loans	Shift from an incurred loss model to an expected loss model
Potential effects	A majority of loans will be considered plain vanilla and may be measured at cost. Non-plain vanilla loans will be measured at FV-P&L	Higher provisions Higher lending costs
Effects on long-term financing	**Neutral**	**Negative impact on long-term loan categories (greater default risk)**

- IFRS 9 will have an impact on lending by banks
- Because it will change the criteria for determining the measurement category (fair value or cost) and the provisioning method

Accounting recommendations on how to promote long-term investing

The creation of a long term accounting category (quoted and non quoted equities, infrastructures) for all investors **BUT UNDER CONDITIONS**:

- **Measurement at cost accompanied by a provisioning model that permits recognition of unrealised losses.**
- **Use of rebalancing**,
- **Choice of a minimum holding period: proposal of** a **5-year period**
- **Mandatory disclosure of the following information in the notes to the financial statements**

Accounting recommendations to promote long-term investing

Proposals principle: Underpinning our proposals is the **asymmetric prudence principle**, which calls for recognising unrealised losses only, but not unrealised gains in contrast to the view of prudence upheld by the IASB.

No proposal for long-term debt instruments because IFRS does not make it complicated to account

Proposals relevant to both banking and insurance : to tackle negative effect of IFRS 9 on recognising and measuring portfolios of quoted and unquoted equity instruments held for the medium and long term.

- **For (quoted) equities held for the short term (less than 1 year),** use FV-P&L accounting.
- **For (quoted and unquoted) equities held for the medium term (between 1 and 5 years),** use the FV-OCI category,
- **For (quoted and unquoted) equities held for the long term (over 5 years),** use cost accounting by **creating a new category for longer-term equity investments.**

The impact of prudential standards on LTI (banks)

- 86% of respondents (from both the financial sector and non-financial companies) considered that prudential regulation negatively affected the long-term financing capacity of intermediaries
- **Two different lines of arguments:**
  - The liquidity requirements and their effect on banks' ability to perform maturity transformation (loan, investment, securitisation portfolios, etc.)
  - The capital requirements and the higher costs of financing (through securitised and non-securitised lending).
- **Several negative effects:** *A reduction in long-term financing; Shorter loan terms; Higher financing costs and a tighter supply of financing; less higher-risk investment (in quoted and unquoted equities) and more so-called risk-free investment (in government bonds);threat to the economic viability of securitisation; securitised assets with longer terms to maturity will be penalised by higher solvency ratios*
- **Each effect may be caused by several regulations**

The impact of prudential standards on long-term investment (banks)

- **Two opposing approaches to assessing the impact of the capital requirements:**
  - The additional requirements will force them to recapitalise and therefore to charge clients more for financing. This will drive their ROE down, making the banks less attractive to potential shareholders.
  - Between 2002 and 2014, ROE in US and European industry ranged from 10% to 13% whereas at universal banks it ranged from 10% to 20% between 2002 and 2005, and from 20% to 30% between 2004 and 2007, after which it declined drastically
  - Pressure from shareholders >> Incentives to select risky projects that are profitable in the short term and by turning down long-term investments likely to produce lower immediate returns.
- **Arbitrage between invesment funding and Financial stability:**
  - **Banks should rethink the stark emphasis on return on equity that characterised a number of their models in the 2000s.**

A discussion of stakeholders' arguments and recommendations

Adequate incentives to finance long-term capital investment projects without sacrificing traditional bank intermediation and financial stability:

Recommandations on prudential ratios: lighter requirements UNDER CONDITIONS!

- Risk weightings for long-term assets funding should be reduced (min/ horizon holding, productive assets)
- a wider range of assets should be made eligible for the liquidity buffer
- above all investments that finance the real economy

Recommandations *on* securitization: Making securitisation safe UNDER CONDITIONS!

- the obligation to trade securitised assets on regulated exchanges >> The centralisation and standardisation offered by those exchanges would ensure that individual risk is not transformed into systemic risk.
- Requiring the originating bank to keep part of the risk on its books to give banks an incentive to select and monitor borrowers more carefully.
- Loans to SMEs should be a primary focus, along with those used to finance capital expenditure. Mortgage loans should not be the only underlying assets.

Collateral damage from financial and banking regulation

- The unintended effects they produce may run counter to the stated goals.
- Those limitations are due to :
  - the tendency of prudential rules to accumulate and interact
  - their increasingly complex and technical nature
  - their instability
  - the growth of shadow banking. empilement et l’interaction des textes

Negative effects on the insurance sector and their causes

- 73.8% felt the programme's approach to valuing assets and liabilities of Solvency II would be detrimental to long-term investment

Two lines of critics (according to Green Paper respondents)

- **Short bias 1:** The choice of a prudential framework based on Full fair value
- **Short bias 2** : Prudential calibration: the prudential treatment of specific long-term assets (calibration)

Recommendations/ prudential treatment

- **Lighter prudential treatment for long term assets But UNDER conditions!**
- **for low-risk infrastructure project assets**(non-carbon wherever possible) = kinds of long-term assets (investment in tangible assets) to promote for a return to sustainable growth.
- **for unquoted equity instruments**, provided that the explicit purpose of purchasing them is to channel financing to innovative companies, as in the case of private equity funds of funds (with programmes to invest in intangible assets).
- **for equities** = another vehicle for financing such investments but funding providers would need to fulfil the behavioural requirements set :
  - (i) they would have to keep portfolio turnover low or limit it to rebalancing
  - (ii) they would have to practice buy-and-hold asset management, an approach that insurers deem unworkable for them because of the current valuation methods.
- A one-year VaR horizon may not be appropriate for the insurance industry

Cumulated negative effects

Effect of the standards Neutral 0 Beneficial + Adverse –	IFRS accounting standards	Prudential standards	Aggregate effect: Cumulative effect ++ Cumulative effect – – Neutral effect +–
Banks			
Loan portfolio	Neutral (IAS 39)	Adverse (liquidity ratio)	0 +
High-risk asset allocation (equities, private equity, infrastructure)	Adverse (IAS 39 and IFRS 9)	Adverse (solvency ratio)	- -
Low-risk asset allocation	Adverse (IAS 39 tainting rule) Beneficial (IFRS 9 business model if SPPI test is met)	Beneficial (solvency ratio)	- + + +
Securitisation	Neutral (IFRS 10 and IAS 39-IFRS 9)	Neutral	0 0
Use of derivatives		Adverse (leverage and liquidity ratios)	-
Insurance companies			
High-risk asset allocation	Adverse (IAS 39 and IFRS 9) Investment property: Neutral (IAS 40)	Adverse (solvency ratio)	- -
Low-risk asset allocation	Beneficial (IAS 39 tainting rule) Beneficial (IFRS 9 business model if SPPI test is met)	Beneficial (solvency ratio)	- +

Débat

- **Sandra Rigot** (Université de Paris Nord)
- **Jean Eyraud** (AF2I)
- **Philippe Marien** (Bouygues)
- **Erik Nooteboom** (Commission européenne)

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Grand témoin

Linda Mezon,

Canadian Accounting Standards Board

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12 décembre 2016

The impact on long-term capital investment of accounting and prudential standards for financial intermediaries

Linda Mezon,
Canadian Accounting Standards Board

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

Autorité des normes comptables
ANC

Key points in the paper

- IFRS aims to provide current and potential investors with information they need to make relevant economic decisions
  - Some studies note fair value introduces volatility into financial statements, particularly with medium- and long-term investments, that normally remain on the company’s books for a long time.
- Change in standards from IAS 39 to IFRS 9
  - Beneficial- higher investment in bonds that qualify for cost accounting (Assets meet the SPPI test and managed under a long term business model)
  - Negative- lower investment in stocks (less measured at FVOCI)

Key points in the paper

- Regulatory requirements lead to a reduction in long-term financing
    - Short term liquidity coverage ratio (LCR) affects long term investment by requiring banks to hold defined liquid assets in the LCR buffer
- Reduce the focus of banks on return on equity
    - Companies are focusing on selecting risk projects profitable in short term and turning down long-term investments likely to produce lower immediate returns

Canadian Landscape

- Canadian Accounting Standards Board (AcSB) supports informed decision making by maintaining frameworks that provide a basis for high-quality information about financial performance reported by Canadian private sector entities.
- Office of the Superintendent of Financial Institutions (OSFI) regulates and supervises all banks in Canada, and all federally incorporated or registered insurance companies and private pension plans.
- Canadian Securities Administrators (CSA) is an umbrella organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets.

Differing view in Canada

- Strong demand for long-term investments by Canadian insurance industry
  - 90% of domestic assets are long term including $6 billion in direct infrastructure investments
- Canadian bank analysts adjust expectations of ROE due to the low interest-rate environment
- Fair value introduces economic volatility not accounting volatility into financial statements
  - Provides users with relevant information about the current status of a company based on the current market values at a given time.

Questions / réponses

- **Sandra Rigot** (Université de Paris Nord)
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- **Philippe Marien** (Bouygues)
- **Erik Nooteboom** (Commission européenne
- **Linda Mezon** (Canadian Accounting Standards Board)

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