

# *Investor view*

## Insights from the investment community

*Issue 1 - What investors want from annual reports?*  
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# **pwc**

PwC hosted a discussion panel at the 'Meet the Experts' in London. Participants from the Corporate Reporting Users' Forum (CRUF) – an international forum of investors and financial analysts – talked about hot topics

in financial reporting. This flyer highlights what the investors told the audience they are looking for in IFRS financial statements and explains how management can improve their communication with the capital markets.

*What are investors saying about financial reporting? The key opportunities for improvement are:*

- 1. Net debt reconciliation*
- 2. Cash flow*
- 3. Linking the primary statements*
- 4. Mergers and Acquisitions*
- 5. Tax reporting*
- 6. Pension disclosures*

### **1. Net debt reconciliation**

- Investors said they need to see how business financing has changed over the year – for example, by reference to a reconciliation of 'net debt' to the cash flow statement and balance sheet.
- Even where a reconciliation is currently provided, key items that are frequently omitted are:
  - Foreign exchange translation impact on debt.

- Acquired (or divested) debt as distinct from other financial liabilities.

### **2. Cash flow – focusing on underlying economies**

- Investors would prefer the reconciliation of operating cash to start from 'operating' profit
- They urge preparers to avoid unhelpful aggregation of key data, such as components of working capital.

### 3. Linkage between the primary statements

- Investors need to be able to trace the impact of transactions across the three primary statements.
- They want to see reconciled opening and closing balance sheet positions in the disclosure notes for each of the key balance sheet items. They would like this to extend beyond those line items currently required by the standards to other critical items that they focus on in their projections, such as working capital. They would like to see an explanation of how the changes are reflected in the other two primary statements.

### 4. Mergers and acquisitions

- Investors need to understand the total cost of acquisitions and assess the return on investment.
- They say that, where possible, they need to identify separately the effects of organic and acquired growth in operating profitability.
- Other items that investors identified as being helpful:
  - Separate identification of acquisitions and divestments in the cash flow statement.
  - Clear information about the market value of all financial assets/liabilities acquired or divested.
  - A clear breakdown of the intangibles amortisation charge.

### 5. Tax reporting

- The investment community believes there is scope for significant improvement in tax reporting.
- Disclosures that investors would find helpful include:
  - Reconciliation between the actual tax expense and the expense that would have been applicable using the geographical weighted average tax rate.
  - More meaningful descriptions of reconciling items.
  - Clear explanation of the difference between the tax expense and cash outflows.
  - Information on the tax expense relating to 'unusual' items (impairments, re-measurement, restructuring costs).

### 6. Pension disclosures

- Investors have been telling us for some time that they would like to see improved pension disclosures – disclosures that go beyond the requirements of the standards.
- Although information has improved in this area in recent times, investors asked for more information about discount rates, such as sensitivity analysis and explanations of changes in rates. Often there is no explanation for the rates disclosed.

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