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# Investor view

## *Insight from the investment community*

What the CRUF looks for in corporate reports

At the 2010 ‘Meet the Experts’ conference in London, PwC invited participants of the Corporate Reporting Users’ Forum (CRUF) – an international forum of investors and analysts – to discuss hot topics in financial reporting. This ‘Investor view’ highlights what the investment professionals told the audience they are looking for in corporate reports.

### ***Focusing on the long-term***

Many in the investment community are struggling to make sense of current macro-economic conditions. Will there be inflation or deflation; a double-dip recession or a surge in growth, stimulated both by quantitative easing and the resurgence of emerging markets?

In the face of such uncertainty, long-term investors return to fundamentals. History shows that, over time, earnings are rewarded. So the CRUF emphasised the importance of earnings to their analysis and the need for companies to go beyond the boilerplate in their communication of performance.

### ***Telling the story of performance***

The CRUF panel highlighted the need for management to present a coherent view of performance: ‘a narrative with numbers’. In particular, they encouraged management to:

- Ensure that the front and back halves of the annual report present a ‘joined up’ picture of performance;
- Provide the information investors need to assess the performance of the underlying business(es). Reporting should be structured around the company’s business model(s) and not simply the letter of GAAP;
- Report the key non-GAAP items that management use to run the business;
- Where possible, reconcile non-GAAP items back to GAAP; and
- Provide a more logical structure to disclosures. Help the reader to navigate swiftly between related areas of the annual report (for example, risk disclosures) through cross-references or by bundling information together in one place.

### ***Ongoing challenges with financial statements***

- **Pensions accounting.** This remains unsatisfactory: assets can be used to flatter the income

“I need to know how the revenue policy relates to the different products and services offered by the entity.”



“Cash flow reporting is like doing a jigsaw with half the pieces missing and without the box”

“Accounting standards should aim to deliver meaningful earnings”

statement; some entities are hedging risks with derivatives; disclosure is often insufficient for investor needs.

The CRUF panel asked management to report service charges as an operating expense and present other charges as finance items. They also asked for better disclosures on longevity, hedging and planned cash contributions.

- **Cash flow** – investors would like management to run the cash flow statement from an operating line (for example, EBIT) through to the movement in net debt. Some ‘direct’ lines are also helpful – most notably, cash receipts from customers.
- **Acquisitions** – mandatory disclosures are unsatisfactory. Investors want to know:
  - What do entities spend, including all financial assets and liabilities?
  - How has the acquired business performed since the transaction took place?
  - How much of the subsequent group amortisation cost is meaningful?
  - How much was raised from divestments?

- **Leasing** – the underlying business reality for lessees is almost never visible from the numbers; the split between operating and finance leases can seem arbitrary; cash flow and ‘real’ debt levels are distorted by captive leasing businesses.

### ***The direction of travel***

The CRUF participants at Meet the Experts supported the basic thrust of a number of the projects on the IASB’s agenda (such as leasing and financial instruments). However, they expressed concern that their ability to provide informed feedback to the IASB and FASB was constrained by the lack of ‘real world’ examples.

They invited the audience to contribute to the debate on key accounting topics by re-casting their numbers (even if just prior-year numbers) using the proposed standards and by providing a sense of the cost of implementation. Additional information is always welcome, but not when it comes at a prohibitive cost.

**To access the CRUF’s Meet the Experts presentation visit [www.cruf.com](http://www.cruf.com)**

Contact your local PricewaterhouseCoopers office to discuss these issues. To discover more about the reporting issues that the investment community is talking about, visit: [www.corporatereporting.com](http://www.corporatereporting.com). To read other editions in this ‘Investor views’ series, visit: [www.pwc.com/ifrs](http://www.pwc.com/ifrs) and click on ‘Investor views’ in the right-hand navigator. To subscribe to future editions, email [corporatereporting@uk.pwc.com](mailto:corporatereporting@uk.pwc.com)