European Leveraged Finance Association

IFRS Foundation
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Dear Board Members and Staff,

Thank you for the opportunity to provide our comment on the International Accounting Standards Board (IASB)'s Request for Information Third Agenda Consultation.

The ELFA is a professional trade association comprised of European leveraged finance investors from 50 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. Our organisation seeks to support the growth and resilience of the leveraged finance market while acting as the voice of our members by promoting transparency and facilitating engagement among European leveraged finance market participants.

Our members rely on the application of current reporting standards for their day-to-day credit analysis as well as within the financial covenants in lender agreements and bond documentation. Given the importance that the current reporting standards holds to our members, we appreciate the IASB's initiative to obtain the views of a wide range of stakeholders on the needs for standard setting. Going forward we would like to continue our engagement with IASB. Please see our feedback on your third agenda consultation below.

In response to your explicit questions:

Question 1—Strategic direction and balance of the Board's activities

We think the current split of board's activities seems appropriate and effective, from the limited time we have engaged with IASB. From the perspective of the members of our Disclosure & Transparency committee the understandability and accessibility of standards is obviously a key one. We do think a digital portal for all companies with listed securities reporting under IFRS is where we should be headed to the extent that falls under your remit.

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

We believe the board has identified the right criteria to use for assessing the priority of financial reporting issues that could be added to the Board's work plan and we are supportive of these. From our experience so far on topics like the Financial Reporting Standards and Reverse Factoring we have seen a fair and balanced approach. With regards to the latter, even after the initial board decision we were pleased to have the opportunity to engage and explain our issues with the current disclosure requirements. We would also like to stress the importance of reviewing the recently implemented standards, see our issues with IFRS 16 as currently adopted below (for example).

Question 3—Financial reporting issues that could be added to the Board's work plan

The statement of cash flow is by far the most important financial reporting issue described in Appendix B that could be added to the Board's work plan and one which we'd be keen to engage with IASB on. As credit investors we spend a lot of time trying to bridge between the income statement, which management teams love to focus on, and the cash flow statement, our primary focus as lenders.

We have previously voiced our views on supply chain financing and feel the information provided in the cash flow on movements of working capital vs other CA and CL could be improved in line with any improved disclosure on the topic.

We also strongly agree with the B76 (b) point around a statement of changes in net debt as this would be highly beneficial and deal with some of the shortcomings we currently see.

Lastly, we think there needs to be improvement on how capex is reported. Currently if financed by finance leases or (under IFRS 16) operating leases then the capex is not reported as an investing activity but as a financing one, which can lead to a material underreporting of capex. We be very keen to see this loophole closed.

Question 4—Other comments

In terms of other priorities, topics we think should be considered are:

Factoring of receivables - Whilst we've already been in consultation on reverse factoring, we have similar issues with the reporting and lack of disclosure of traditional receivables factoring, which is often backed by debt facilities (recourse or non-recourse) that if unwound could lead to liquidity problems for leveraged companies. It's therefore in credit investors interest to know these arrangements are in place and how much is being used in a given reporting period.

IFRS 16 - The introduction of IFRS 16 and its impact on the calculation of key credit and bond documentation metric EBITDA and debt has resulted in i) publication of varied adjusted versions of EBITDA (EBITDA post-IFRS 16, EBITDA pre-IFRS-16, EBITDAaL) and debt (pre and post IFRS 16) that make consistent comparability across different companies/issuers increasingly difficult, and ii) increased complexity in understanding and monitoring bond documentation due to EBITDA and debt being calculated in a variety of ways reflecting the first point. We believe the IASB should seek investor feedback on the use of IFRS 16 and any improvements in required disclosure to enable investors to effectively and efficiently analyse companies/issuers on a comparable basis.

We hope that our comments will contribute to the IASB's further deliberation on this topic. Should you require any clarifications, please do not hesitate to contact us.

Yours sincerely,

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