



Financial Reporting Lab  
Financial Reporting Council  
5th Floor Aldwych House,  
71-91 Aldwych, London,  
WC2B 4HN

4<sup>th</sup> November 2011.

Dear Financial Reporting Council,

The Chartered Financial Analyst Society of the UK (CFA UK) welcomes the FRC's launch of the Financial Reporting Lab. We are pleased to contribute by providing a short list of quick wins and other suggestions for improving financial reporting.

The Chartered Financial Analyst Society of the UK represents more than 9,000 investment professionals working across the financial sector. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee.

#### About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 9,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 140 countries, of which more than 90,000 hold the Chartered Financial Analyst (CFA) designation.

## **“Quick wins” and other relatively simple suggestions for improving financial reporting**

In a recent survey, CFA UK members picked out improving financial statement presentation as a key area for the society's advocacy work. As it is unclear what plans the IASB has to revive its full project on FSP, the FRAC supports the practical idea of focusing on a few areas that could be fixed in the mean time. The FRC's Financial Reporting Lab seems an ideal venue to pursue these ideas.

The following list of the FRAC's priorities for “quick wins” was prompted by a list that has been discussed at meetings of the Investment Organisation in the UK, which brings together several organisations, including CFA UK, that represent the interests of users of accounts.

- 1. Cash flow statement:** start at operating profit, or higher eg ebitda. The aim is to have a clear view of adjustments made to the P&L figures to arrive at operating cash flow. This could then be accompanied by a table reconciling movements in net debt to cash flow.
- 2. M&A: the total cost:** the total cost, including debt assumed and fees, and proposed restructuring charges, should be clearly stated in one place. Ideally there would be an M&A history section that would repeat this information in future years, with details of amortisation and impairments. The aim is to be able to follow up with calculations of whether the post-tax profits arising from the acquisition cover the entity's cost of capital.
- 3. The company's calculation of its weighted average cost of capital,** with a breakdown of the elements. Some companies eg WPP provide a measure of economic value added. Is this an example of “best practice” that could be spread?
- 4. Disclosure of debt covenants:** an example of information available to credit rating agencies that might well be helpful to a broader range of account users. There may be a precedent in US regulation.

We would be happy to discuss these ideas with the lab.

Yours sincerely,

Jane Fuller

Chair, Financial Reporting and Analysis Committee  
CFA Society of the UK