CFA UK is a member society of

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Michael Stewart
Director of Implementation Activities
IFRS Foundation / IASB
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Michael,

The Chartered Financial Analyst Society of the UK (CFA UK)welcomes the opportunity to respond to the first triennial consultation on the IASB's agenda.

CFA UK represents more than 9,000 investment professionals working across the financial sector. For advocacy purposes, these members are represented by committees that consider proposals relating to Financial Reporting and Analysis Committee (FRAC). Our members have not been surveyed for this response.

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 most of whom work as front office investment professionals (managing portfolios, researching securities and advising on asset management). 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 111,000 members in 135 countries, of whom more than 101,000 hold the Chartered Financial Analyst® (CFA®) designation.

Introduction

On the key question of the balance between developing standards and maintaining/improving existing ones, we are clearly of the view that the latter is as important as the former. Indeed, because of the welter of new standards prompted by IFRS/US GAAP convergence and the response to the financial crisis, it would restore the balance between the two if improving existing standards were the priority for the next few years. The main area that CFA UK members have identified as being in need of improvement is financial statement presentation. The CFA has long campaigned for improvements to the cash flow statement. Other priorities are set out below in our comments on the list of potential projects.

On coping with the “diverse community”, we welcome the establishment of an Emerging Economies Group. It is good to see that it is headed by the chairman of the Interpretations Committee. As much emphasis should be placed on consistent implementation of IFRS as on responding to the questions raised by new, or potential, adopters of the standards.

On coping with more complex markets, this is not new and a principles-based approach to standards setting helps to provide the litmus tests against which new practices should be measured. But perhaps the IASB needs to improve its horizon-scanning capabilities, with the aim of identifying activities where the application of standards is unclear, or where loopholes are being exploited. This might raise questions about the level of guidance given to preparers, including through the Interpretations Committee and less formal contact with staff. It is worth noting that there is nothing wrong with an anti-abuse element to the IASB’s work.

One last observation is that although there is plenty of opportunity to comment in detail on the IASB’s agenda, it is a largely pragmatic document directed at planning workflow and making the best use of limited resources. We do welcome the reiteration of the objective that “these standards should serve investors and other market participants in their economic and resource allocation decisions”. However, is it deliberate that there is no over-arching strategy or statement of the board’s priorities? It would be good if one outcome of this consultation exercise were the creation of a strategy statement or statement of purpose that will guide the agenda.

Responses to questions

Question 1

What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

Response: We believe this is an opportunity to refocus the board's efforts on the reporting of operating performance and on cash flows. The recent emphasis on financial companies has led to a focus on the balance sheet rather than on the income and cash flow statements. Yet, for non-financial companies, these are what users find most relevant in providing a platform for forecasting. We believe that improving them should be the over-arching priority for the next few years. The phrase "improving the usability of financial reports through presentation" sounds the closest to this, but it is rather vague and lacks emphasis.

We strongly agree with the "two important tensions" identified by the Trustees. Tackling both should be strategic priorities for the IASB.
Please note that as well as answering the questions, we also comment on the "Five Strategic Areas", and the views expressed there underpin the other responses.

Five strategic areas

Category 1: Developing financial reporting

- Strengthening the consistency of IFRSs by completing the update of the conceptual framework, and improving the usability of financial reports through presentation and disclosure framework. Issue: disclosure requirements too voluminous. A separate IFRS on disclosure?
  Comment: It is inarguable that the update of the conceptual framework should be completed. It is important that the objectives and the criteria for "decision usefulness" have already been updated as this provides overall guidance and aids consistency. It would logical to finish the project, but there is a danger of it absorbing too much time and of the document becoming too unwieldy and detailed when it should be a high-level set of principles. In general, we welcome work aimed at "improving the usability of financial reports".

  More specifically on disclosure, we do not believe that it will be possible to publish standards with no disclosure requirements. Having said that, there is a strong case for promoting disclosure principles. This should cut duplication and help to reduce prescription since the principles will provide a generic reference point. But there will always be a demand for specific guidance on different standards.

- Investing in research and addressing strategic issues to aid future standard-setting, including interaction of IFRSs with integrated reporting and electronic reporting. Strategic review: what will financial reporting look like in 10 years' time?

  Comment: If research and "strategic review" mean blue-skies thinking, we are wary of it. Bearing in mind the IASB's limited resources, is it worth spending much time on work that is not focused on solving current "usability" issues? It is a positive development that other standard-setters are doing an increasing amount of research into some of the more controversial subjects eg the Australian board on intangibles. Proposals can be taken on from there on their merits – ie relevance to investor needs.

While the IASB should be aware of other reporting initiatives, the danger is that its purpose will be diluted by issues to do with the presentation of non-financial information, notably narrative reporting. These areas also tend to be conduits for political pressure, which is unwelcome for the IASB.

Electronic reporting/XBRL may provide useful tools for making comparisons through standardisation and ease of drilling down into additional detail, but these are practical filters fitted to IFRS numbers rather than strategic drivers or priorities for the IASB.

- Filling gaps in IFRS by undertaking standards-level projects. See Appendix C list of deferred projects and additional suggestions – ie potential candidates.

Comment: This is obviously important and it makes sense to build on work that has already been done in certain areas. See discussion of items on the list.

Category 2: Maintaining existing IFRSs

- Obtaining a better understanding of operational issues through post-implementation reviews. Focus on issues identified as contentious during the development of the IFRS and consider unexpected costs or implementation problems. Review of IFRS 8 (operating segments) will begin in 2011, with 2008 revision of IFRS 3 (business combination) and amendment to IAS 27 (consolidated statements) in 2012.

Comment: This is an important part of the effort to "enhance public accountability and legitimacy". These reviews need to be open to frank debate and rigorous in their analysis of the feedback. They should be a public demonstration of the IASB's commitment to "quality and relevance" of IFRS in practice.

Improving the consistency and quality of the application of IFRSs through targeted improvements, including integration of XBRL. When via IFRIC and when should IASB make narrow-scope improvements?

Comment: We strongly believe that more effort should be devoted to ensuring consistent application of standards and in countering what the Trustees describe as "the risk that practices related to implementation and adoption will diverge". As a first step, there should be a thorough review of -

a) what actually happens in each jurisdiction that claims to require or permit the use of IFRS; and

b) how implementation is monitored and enforced.

IFRIC clearly has an important role in this, particularly in helping preparers with practical implementation. If its judgments look like setting precedents, then the matter should be referred to the IASB. Maybe the distinction is like that between an ombudsman, who deals with individual queries, and the emergence of a general question or a question of principle.

We are not sure how XBRL improves the quality of standards and we do not think it is a strategic issue. It may well improve the usability of financial information for some users because it is easier to incorporate numbers into models. But models have their limits.

Question 1(a)

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

The two categories are obvious from an operational point of view, but they are not strategic. Maintaining, and improving, existing IFRS should not be a poor relation of developing new ones.

None of the five strategic areas suggests any change in the IASB's fundamental approach. As mentioned above, we believe this is an opportunity to refocus the board's efforts on the reporting of operating performance and on cash flows. This is what users find most relevant in providing a platform for forecasting future cash flows. This would redress the balance towards reporting by non-financial companies.

Question 1(b)
How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

The two categories are equally important. Within the five areas, we prefer the IASB to focus on the following: "improving the usability of financial reports", notably of the income and cash flow statements; filling the gaps according to the priorities (chosen from Appendix C) identified by this consultation exercise; conducting rigorous and open-minded post-implementation reviews; improving the consistency and quality of IFRS application through the work of the Interpretations Committee and other means eg publishing a comprehensive database of what is happening in each jurisdiction.

- Understanding financial reporting needs

- Focus on investors and creditors but also consider various other "stakeholders" and regional needs.

Comment: Beware of dilution of purpose. Focus should be on investors and creditors ie suppliers of capital.

Question 2:
What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

Finishing existing projects including insurance, which means continuing the IASB's work even if convergence with US GAAP is not possible at this stage. Then turning to the projects most likely to improve financial statement presentation (income statement and cash flow) for non-financial companies.

Question 2(a)
Considering the various constraints, to which projects should the IASB give priority, and why?

Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

Question 2(b)
Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

We have considered the list in Appendix C and divided it up into the following categories, in order of preference:

1. Improvements to financial statement presentation for non-financial companies.

2. Other long-standing issues of concern to investors.

3. Issues of interest to emerging economies.

4. Residual convergence projects that could be folded into FASB's "condorsement" process, which would then – we hope – be IFRS ready.

5. Low or no priority

Within each category, we have listed the projects in order of preference.
We also include a list of our top eight projects in order of priority.

1. Improvements to Financial Statement Presentation for non-financial companies

I. Financial statement presentation, including consideration of other comprehensive income

II. Other comprehensive income

Taken together, financial statement presentation is our top priority.
It may well be easier to re-enter the FSP project by sorting out OCI first. This would help to develop a system that separated operating performance from re-measurements.

<u>Presentation and disclosure standard</u>

We would support a limited project to develop disclosure principles and to prune disclosure requirements in individual standards.

<u>Share-based payment</u>

This is a standard that is often complained about and so it would be good to have an improvement project. We are interested to see what proposals the French standard-setter has come up with but are not in favour of the suggested broader scope project. Measurement of value should be based on the payment made, as it would be with cash, not on the services received.

Extractive activities

Proposals arising from the work by standard-setters from Australia, Canada, Norway and South Africa that would improve FSP for these important industries should be worth considering.

Other long-standing issues of concern to investors

Liabilities – amendments to IAS 37

This project is well advanced and linked to improvements in other standards. Alignment with US GAAP would be another plus.

Discount rate

It is important that preparers disclose the key assumptions they are making in discounted cash flow calculations. If a limited project could identify some common principles, that would be helpful.

Income taxes

There is a case for tackling the common questions raised and building on the work already done. Users find it difficult to judge how likely it is that deferred tax assets and liabilities will crystallise and the timing of them. The UK ASB and the German standard-setters have been conducting a project on this – have any proposals emerged?

Emission trading schemes

There is a growing need for guidance on this, especially once allowances are auctioned. Standards on intangibles and inventory seem relevant, so the priority should be to see whether the measurement issue can be solved by applying existing standards. IFRIC should have a role in this.

Equity method of accounting

Various other standards have a bearing on this and could feed into a limited project to simplify it, although this is not a priority.

Issues of interest to emerging economies

The question with each of these is whether the project will lead to a genuine improvement in standards across the board. If so, and especially if there is a "quick win" to be had through a limited scope project, they should be pursued working with standard-setters in the countries concerned. The priority should be to work out how existing principles can be applied.

Islamic (Shariah-compliant) transactions and instruments

Worth looking at any recommendations from the Malaysian ASB and others.

Foreign currency translation

At the Board's request, a group of national standard-setters led by the Korea Accounting Standards Board has been exploring this issue.
Worth looking at any recommendations from the Korean ASB.

Agriculture, particularly bearer biological assets

Worth looking at if feeling is strong and if there could be a quick win, or a clarification of how to apply existing standards. The case for historic cost is unlikely to be convincing since there will often be a readily available market price for these assets. A current value, even if replacement cost or value in use is more relevant.

<u>Inflation accounting (revisions to IAS 29 Financial Reporting in Hyperinflationary Economies)</u>
May be worth considering recommendations from the paper by the Federación Argentina de Consejos Profesionales de Ciencias Económicas. Unlikely to be of broad relevance.

<u>Residual convergence projects that could be folded into FASB's "condorsement" process</u>

This means the project would be of narrow scope.
Financial instruments with characteristics of equity
We assume the IASB's tentative decisions would feed into a FASB process.

<u>Earnings per share</u>
It would be good to realise the potential for simplification.

<u>Low or No priority</u>

Post-employment benefits (including pensions)
Let phase (a) bed down. Hybrid schemes could be unbundled into parts that require DB or DC accounting. A limited project could work on guidance as to how to do this.

Intangible assets
Users have mixed views on this. They hesitate because the market price implies a value for intangible assets. Better performance reporting would help users to value intangible assets.

Country-by-country reporting
The running is being made by legislators here. No need for the IASB to do more.

Government grants
Wait for any implications from revenue recognition etc

Business combinations between entities under common control

Interim reporting

Rate-regulated activities

<u>Eight preferred projects in order of priority</u>

1. and 2. Financial statement presentation and other comprehensive income

3. Presentation and disclosure standard

4. Liabilities – amendments to IAS 37

5. Share-based payment

6. Discount rate

7. Income taxes

8. Extractive activities

We hope that the CFA UK’s response is helpful to the IASB and would be open to further discussions with the IASB about any of the points we have raised.

Yours,

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CFA Society of the UK

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