Centre for Financial Market Integrity

The Committee of European Securities Regulators
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Call for Evidence on The Use of Standard Reporting Format for Financial Reporting of Issuers having securities admitted to Trading on Regulated Markets

The CFA Institute Centre for Financial Market Integrity ("CFA Institute Centre") welcomes the opportunity to comment on CESR's Call for Evidence on The Use of Standard Reporting Format for Financial Reporting of Issuers having securities admitted to Trading on Regulated Markets.

The CFA Institute Centre[1] promotes fair, open, and transparent global capital markets, and advocates for investors' protection. We considers the use of a standard reporting format for financial reporting of issuers an important development in the global financial markets, as financial reporting information is the lifeblood of financial markets. This information needs to be transmitted to users in an efficient and reliable way, taking advantage of available technology so that financial markets can operate at their most efficient state possible.

In 2007 the CFA Institute Centre convened a volunteer working group on XBRL in order to engage with the US Securities and Exchange Commission (SEC) on its recently introduced Interactive Data Rule. To that end, the working group surveyed CFA Institute's member base and compiled Key Principles which need to be considered for XBRL to be useful for investors. The findings of the working group, which is now being reconstituted as a working group with a global mandate, are available in the publication, *eXtensible Business Reporting Language: A Guide for Investors*[2]. The CFA Institute Centre is represented at the IASCF's XBRL Advisory Council, and jointly organised a conference—"XBRL for Investment Professionals"[3] with the International Accounting Standards Board (IASB) and the European Federation of Financial Analyst Societies (EFFAS) in September 2008.

[1] The CFA Institute Centre develops, promulgates, and maintains the highest ethical standards for the investment community, including the CFA Institute Code of Ethics and Standards of Professional Conduct, Global Investment Performance Standards ("GIPS®"), and the Asset Manager Code of Professional Conduct ("AMC"). It represents the views of investment professionals and investors before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and the transparency and integrity of global financial markets.

[2] CFA Institute's XBRL guide is made available to all interested parties through their website: http://www.cfapubs.org/doi/abs/10.2469/ccb.v2009.n3.1

[3] Presentation information from the conference is available on the CFA Institute website: http://www.cfainstitute.org/memresources/conferences/080926/postconference.html

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While ongoing surveys of CFA Institute's member base continue to exhibit a relatively low level of familiarity with XBRL (awareness increased to 45% in our 2009 survey[4]), we believe that this is a function of the complex interaction between the general availability of XBRL formatted information from issuers on the one hand, and the demand from users of financial reporting information on the other. Such users currently have research and analysis processes in place that rely on financial information provided through incumbent channels, with their known limitations (i.e. time delays, quality issues (errors, normalisation), considerable cost of third party providers or even manual entry). As long as the required information is not available in XBRL for the investable universe that the user is interested in, she has little to no incentive to invest time and resources into modifying the research infrastructure to capture the benefits of XBRL formatted information.

The survey also showed an increase in usage of XBRL; 21% in 2009 to only 16% in 2007 that used XBRL based financial filing made to security regulators. The CFA Institute Centre sees this uptick in interest for XBRL is being driven by the increasing number of markets, such as Japan and the US, which mandated XBRL reporting during this time. At this point, we estimate that about 60% of the equity market capitalisation of developed markets is in some stage of implementing mandatory XBRL disclosures, which is still insufficient for globally active investors. Given the capitalisation of financial markets regulated by Members of CESR, CESR and its Members play a pivotal role in passing a threshold in the critical mass for investors to take advantage of the benefits of XBRL, and facilitate other stakeholders' (government, issuers) benefits of this crucial innovation in financial market infrastructure.

We appreciate the opportunity to provide comments to CESR on this consultation. If there are questions or a need for further elaboration of our views, please contact Glenn Doggett, CFA, by phone at +1 (434) 951-5278 or by e-mail at glenn.doggett@cfainstitute.org.

Yours faithfully,

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[4] Complete survey results and methodology available at:
http://www.cfainstitute.org/centre/topics/reporting/pdf/xbrl_2009_survey_results.pdf

The CFA Institute Centre is part of CFA Institute[5]. With headquarters in Charlottesville, VA, and regional offices in New York, Hong Kong, London, and Brussels, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 137 countries, of whom more than 89,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

Our detailed comments follow the order of the Consultation's questions.

SPECIFIC COMMENTS

Q1. Do you consider that there should be a standard reporting format for financial reporting of issuers having securities admitted to trading on a regulated market? What kind of pros and cons would a standard reporting format have?

Yes, we support a mandatory, single standard reporting format for all regulated markets in Europe. This will enable investors to adapt and streamline their research and analysis processes. It is important, however, that this format is not regional in scope (i.e. limited to Europe), but global, as investors need to retain a global perspective in their research.

A useful, efficient standard reporting format will be based on an open, non-proprietary web standard. It will dismantle the document based financial reporting and make its semantic elements individually addressable. In order to allow for continuous evolution of both the technical standard as well as the business logic, it will separate those dimensions, too.

Q2. If yes to Q1, do you consider that XBRL would be an appropriate format? Are there any other reporting formats that CESR should consider in this context?

Yes, we think that XBRL is an appropriate format, and given it's already established base of adoption covering some 60% of the global equity market capitalisation, we think it is the only format worth considering in this context. From a technical standpoint, XBRL encompasses a level of complexity that is commensurate with the level of complexity of financial reporting so that not only is the development of technical specifications separate from the development of the business logic as reflected in taxonomies, but those taxonomies can reflect the semantic elements which are pre-determined by accounting standards. Despite that complexity, the standard is flexible enough to still accommodate individual extensions reflecting the reporting requirements of issuers, although we are concerned that this flexibility might compromise the comparability of such items across issuers.

[5] CFA Institute is best known for developing and administrating the Chartered Financial Analyst curriculum and examinations and issuing the CFA Charter.

Q3. What kind of benefits would you consider a standard reporting format to bring for issuers, investors, auditors, analysts, OAMs or other users of financial information?

As mentioned in our response to Q2, we think that there should be a single global standard reporting format, and we think this format should be XBRL. Consequently, we will answer Q3 ff. as if they were asking for "XBRL" instead of "standard reporting format".

The benefits of XBRL for investors can be summarised easily: If XBRL formatted financial reporting is available comprehensively, analysis will become cheaper, smarter and faster. It will be faster because reports are open to analysis as soon as they are published by the issuer. Currently, they have to be transmitted and transformed in a number of error prone ways. These transformations, which usually include manual intervention, are expensive and can be substantially reduced, which will reduce the cost associated with it. It is smarter because the information will be available "as reported". Third party providers usually perform normalisation procedures to fit the numbers into their own proprietary, less granular data models. That process is costly, subject to mistakes, and destroys information. Last, but not least, we know from experience that there is a non-negligible likelihood that novel approaches to analysis and valuation will be discovered when a broad, structured data base is available online.

Q4. What kind of disadvantages would you consider a standard reporting format would cause to issuers, investors, auditors, analysts, OAMs or other users of financial information? Do you see any obstacles to such reporting?

Other than the efforts and expenses involved with migrating reporting and analysis processes involved, we are not aware of any disadvantages related to an XBRL based standard financial reporting approach.

There are two potential obstacles related to the nature of XBRL as a market infrastructure: We need to see a relatively speedy, yet predictable, mandatory adoption path which needs to be led by regulators and standard setters. Since XBRL is an infrastructure project that generates returns to all stakeholders only when adopted with a value-chain perspective, it requires dedicated leadership. Secondly, the value chain of investors is global in nature, so regional bifurcations will lead to breaches in that value chain, thereby reducing the incentive to use the infrastructure provided.

Q5. What kind of costs (one-off or recurring) would you consider a standard reporting format would impose on issuers, investors, auditors, analysts, OAMs or other users of financial information? Please provide estimated costs, if possible.

Cost estimates are inherently difficult and contingent on the starting position of the particular situation as well as on the intended goals of the project. Anecdotal evidence from issuers in the US leads us to believe that the efforts involved with complying with the new SEC rule are generally lower than what has been feared. Bear in mind also that the processes that XBRL touches are frequently modified due to changes in reporting standards, corporate structures etc. If the XBRL rule provides a predictable transition path, the costs can be minimised. Migration costs are essentially one-off and need to be seen in relation to the associated benefits.

Q6. Are the above benefits, disadvantages, obstacles and costs different if the standard reporting format would only cover income statement, balance sheet and cash flow statement instead of full financial report? Please explain the differences.

The cost/benefit analysis would be substantially less favourable if the format were only to cover the main statements instead of the full report because analysts and investors rely heavily on footnotes and additional disclosures in their interpretation of reported numbers. Without that apparatus, they would have to revert to the traditional reporting documents. Therefore, benefits would be substantially weaker, while cost etc would be largely retained.

Q7. How would you assess the benefits of the use of standard reporting formats against the costs?

If the costs and benefits of XBRL were to accrue to a single entity, there would be no need for regulatory intervention since the payback period of the project would be very short. In reality, however, costs and benefits are unevenly distributed across the participants of the financial reporting supply chain. Therefore, leadership of regulatory authorities is required to assure a quick, efficient implementation of this infrastructure innovation.

Q8. Do you envisage any liability and/or audit issues arising from the use of standard reporting format?

One of the Key Principles that our working group has identified is Disclosure Neutrality. This means that users should be able to be indifferent as to the channel that the information they work with reaches them. Users expect XBRL instances to be equivalent in quality to the financial reports issued by corporations. This equally applies to their audit assurance. We are aware that this is not the case at this point, but we consider this to be an issue that needs to be resolved before XBRL can become the principal mode of delivery of financial reports.

Other than that, we are not aware of other liability issues.

Q9. Are there any other issues CESR should take into account in the analysis of the issue?

One of the key benefits of XBRL formatted financial reporting for investors will be improved comparability of corporate results. This is contingent upon as high as possible a standardisation of reported concepts under IFRS. The current IFRS taxonomy is limited in scope to the concepts contained in that body of accounting standards. Industry specific and / or common practice concepts that are consistently reported already do not form part of the taxonomy. We are concerned, therefore, that issuers will have to go to the pains to formulate their own individual extensions, which will result in a loss of comparability for such items. We support the IASCF's XBRL Team's ongoing initiative to go beyond the bound volume in the identification of a single, comprehensive set of global industry taxonomy extensions to the IFRS taxonomy. It will be interesting to compare that efforts with the approach applied to building the US GAAP taxonomy, which encompasses a far higher degree of granularity.

In the same context, it is also noteworthy that the US SEC's draft roadmap[6] for allowing US based corporations to use IFRS accounting contained the requirement for improved comparability of IFRS XBRL instances built using the IFRS taxonomy. This requirement counts as one of seven milestones in the convergence project.

Additionally, investors rely on information from various company reports beyond the regulatory filings, including earning press releases and corporate websites. As the adoption of XBRL reporting advances, investors would benefit from having XBRL tagged information from all such corporate releases.

[6] The US SEC roadmap to IFRS proposal is available on the Commission's website: http://www.sec.gov/rules/proposed/2008/33-8982.pdf