CFA Institute

Rue du Champ de Mars, 23
1050 Brussels
Belgium

+32 (0) 2207 12 10 tel
info@cfainstitute.org
www.cfainstitute.org

21 July 2018

Eric Ducoulombier
Directorate-General for Financial Stability, Financial Services & Capital Markets Union
European Commission
(via electronic submission)

RE: Consultation Document:
Fitness Check on the EU Framework for Public Reporting by Companies

Dear Mr. Ducoulombier:

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC"), appreciates the opportunity to comment on the *Consultation Document: Fitness Check on the EU Framework for Public Reporting by Companies* ("EC Fitness Check" or "Consultation"*)*. We are filing this letter instead of completing the online questionnaire for the reasons articulated below including the broad nature of the questions and narrow response options, the multiple objectives and the questions being directed at the concerns of preparers rather than focused on the objectives of investors (who are centered on facilitating the optimal allocation of capital). We provide responses to the key questions in the sections – that mirror the Consultation sections – that follow and highlight our most important overarching considerations below.

CFA Institute is comprised of more than 130,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures provided to investors and other end users is of high quality.

OVERARCHING CONSIDERATIONS

1) ***Breadth & Depth of Consultation & Nature of Response Construction:***
Many Questions are Too Broad to be Answered in a Meaningful Way by Survey **–** We highlight in Section I, that the Consultation covers a wide range of topics – and objectives as we note below. Despite the wide range of directives and topics covered, respondents are asked to "agree or disagree" with the questions or reply "don't know" when in fact the issues arising from the questions are broader, more complex, nuanced or multi-pronged than the questionnaire schema provides. From our perspective, the issues covered can be very broad and such narrow response options within a survey may result in a misinterpretation or mistabulation of perspectives. For that reason, we are responding in this format.

[1] With offices in Charlottesville, New York, Hong Kong, Brussels, London, Mumbai and Beijing CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 151 countries, of whom more than 125,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories.

We are concerned that it will be difficult for the European Commission ("EC" or "Commission") to draw meaningful conclusions based upon the wide-ranging nature of the topics covered – and the form of response collection. We believe specific questions on elements of directives or regulations mapped to their objectives would likely result in more meaningful feedback.

2) ***Multiple & Mixed Objectives*** – The table on Page 7 of the Consultation, explicitly highlights multiple objectives of the various directives and regulations. While the broad construction of the questions with narrow response options make responding to the question challenging – as we highlight above – further complicating the ability to respond are the mixed or conflated objectives. The Consultation sections and questions imply objectives that cover financial reporting for listed companies, financial reporting for non-listed companies, management reporting, prudential regulation, cross-border business, promotion of small and medium sized enterprises, long-term investment, sustainability goals, and public or social policy objectives, and EU-specific policy objectives, etc.

   Further, respondents will have many different perspectives depending on their objectives and this mixing or conflating of objectives by seeking comments at the directive or regulation level makes it challenging to assess how different stakeholders perceive and respond to the questions.

   We highlight several illustrations of this in Section I below.

3) ***Costs v. Benefits*** **–** We urge the European Commission to be mindful of the asymmetry in quantifying costs and benefits of various aspects of public reporting when reviewing the responses to the EC Fitness Check. Question #4 asks for the costs of complying with the various directives and regulations without providing substantial detail on what should be tabulated and whether the cost tabulated includes the cost of complying with all of the reporting objectives (company, listed company, prudential, non-financial, etc.) or only listed company reporting. There is no reciprocal question on the cost to investors of moving away from International Financial Reporting Standards ("IFRS") to national accounting standards or European Union ("EU") carve-outs or carve-ins. We are concerned this question will perpetuate an age-old problem: it is always easier to quantify the cost to preparers of complying with legislation and standards whereas the benefits, such as increased access to the capital markets, or lower costs of capital are less easily quantified. The consideration of the costs, or lost benefits of these proposals to investors must be appropriately assessed by the European Commission and we note that the Consultation does not seek tabulation these costs.

   See also the discussion regarding the impact of costs on EU dual listed companies of adoption of a modified version of IFRS and the benefits versus cost considerations in the discussion of digitization in Section V.

4) ***Modification of IFRS: Investing is a Global, Not Regional, Undertaking.*** Every day, investors choose between investment opportunities in markets across the globe. Because financial information and financial reporting are central to the investment decision-making process, CFA Institute has long been a supporter of a single-set of high-quality accounting standards. In fact, IFRS is an integral part of the CFA Program curriculum for that reason.

   Our numerous member surveys show significant support for even greater convergence of standards. CFA Institute specifically, and investors more broadly, were disappointed by the International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB")'s movement away from the 2006 Memorandum of Understanding and the inability of the IASB and FASB to reach convergence on the accounting for financial instruments and for the differing income statement presentation of leases. Different accounting for transactions based upon the regional location of a parent company's domicile

is an ineffective and unfortunate result for investors who seek comparability of financial information to make relative investment choices. The cost of investors decoding national regional accounting principles is not insignificant.

While disappointed by the U.S. not advancing its adoption of IFRS for domestic filers, the U.S. Securities and Exchange ("SEC") has signaled its acceptance of IFRS by allowing foreign filers to submit their financial statements on an IFRS basis without reconciliation to U.S. generally accepted accounting principles ("U.S. GAAP") – an important milestone for global consistency of accounting standards. Should European companies who are dual listed in the U.S. become subject to national or regional accounting standards or a plethora of carve-ins and carve-outs from IFRS, we would expect they would be required to reinstate their reconciliation to U.S. GAAP when filing their Form 20-F. This would be a cost consideration for many large EU companies who currently follow IFRS.

The cost of converting companies to comparable results is expensive for investors and is a cost not typically considered by policymakers in their cost/benefits analysis as we discuss above and in Section I. To reiterate, we believe the Consultation is missing an important question regarding the cost to investors of disparate accounting bases and the cost of converting to similar and comparable results for investors – should there be a move away from IFRS.

We see any further divergence brought about by IFRS carve-ins and carve-outs as an extremely negative result for investors and one that will raise the cost of capital for those regions or companies availing themselves of regional rules where such divergence is possible.

The belief – implied by the response options – that having regional standards would improve the attractiveness of investment in EU companies is opposite to the effect it would have.

Our position is that policymakers and standard-setters time is best spent on seeking further convergence, rather than divergence, in accounting standards.

5) ***Integrated Reporting –*** CFA Institute has supported the efforts of the International Integrated Reporting Council ("IIRC") with respect to integrated reporting. As we noted in our 2016 letter to the Financial Times, *Investors Too Need to Be More Rigorous*, we see the International Integrated Reporting Framework very much in-line with the desire for long-term value creation. We clearly see the potential to improve investment decision-making and reduce costs for investors and for preparers to improve the cohesiveness of disclosures and the communication of risks and results.

   We think a comprehensive mapping of the EU reporting framework to the integrated reporting framework – something not possible in the time allowed by or the comprehensiveness of this Consultation – would be necessary to be able to provide meaningful commentary on whether the EU framework is an obstacle. We would propose this be done and submitted for public consultation.

6) ***Electronic Access & Delivery to Information –*** We would like to draw special attention to Section VI on digitalisation. CFA Institute has long supported improving digital access to financial reporting information. The ability of investors to access comparable digital information across Europe is substantially behind that of some other markets – perhaps ten years behind. We would encourage policymakers to engage with companies such as CalcBench and idaciti to see the power of XBRL in action in facilitating analysis for investment decision-making. These organizations are also making strides in structuring

documents themselves and developing programs to read data that is not XBRL-ized. For example, CFA Institute recently used CalcBench to pull the auditor tenure of companies within the S&P 500. In seconds, a vast majority of information was readily available. Even organizations such as Financial Executives International (FEI) are using tools such as idaciti because of its capability to read SEC comment letters. Investors are finding new methods of utilizing alternative data in innovative and interesting ways.

Lowering the barriers to entry in the analytics field, whether carried out directly by investors and analysts, through startups that can use digitised and open data, or by retail investors themselves, is a strong reason for a policy bias toward standardized and digitized data that emanates from companies directly. Without structured data that comes directly from the company and that can be legally relied upon, the core analytics that support decision making will be badly impaired in the future. In an environment that increasingly pulls together data for use within Augmented Intelligence (AI) systems or through other forms of AI-enhanced analytics, reliable structured fundamental data is a key competitive advantage that policymakers should consider in their cost/benefit considerations. For the most effective use of data and AI, companies – under a standardized taxonomy – should structure the data not the external users be they man or machine.

We note that digitalisation is often opposed due to the additional costs borne by preparers. However, this argument must be questioned in light of the fact that often, the same companies who point to digitalisation as a costly exercise look to improve accounting processes internally through robotic process automation, for example.

We believe we are at a tipping point on the usefulness of XBRL in the U.S., and European companies should quickly come up to speed on structuring of data to allow investors to readily access and read financial statements. Carve-ins and carve-outs of IFRS will only serve to further decrease the comparability of structured data taxonomies. Considering the "fitness" of EU financial reporting from a digital perspective – that is how some investors seek to access financial information – should quickly highlight the digital imperative to European policymakers.

Divergences from IFRS as promulgated by the IASB will only be detrimental to the standardization and digitalisation processes.

We provide our perspectives on various other topics in the sections that follow.

I. ASSESSING THE FITNESS OF THE EU PUBLIC REPORTING FRAMEWORK

Breadth & Depth of Consultation & Nature of Response Construction:
Many Questions are Too Broad to be Answered in a Meaningful Way by Form of Questionnaire Reponses

This section of the Consultation asks respondents to comment on the effectiveness (Question #1), relevance (Question #2), efficiency (Question #3) and coherence (Question #5) of the Accounting Directive (AD), IAS Regulation (IAS), Transparency Directive (TD), Bank Accounts Directive (BAD) and Insurance Accounts Directive (IAD) with respective to the objectives of stakeholder (of which there are many) protection, internal markets, integrated EU markets, financial stability, and sustainability.

The Consultation also covers a wide range of subjects from the banking and insurance directives to a series of questions on extractive and logging industries – which require deep and narrow industry expertise. There are also questions on sustainability initiatives and digital transmission of information. There are both very high-level (e.g. effectiveness, relevance, efficiency and coherence of directives) and granular (e.g. specific layout and line items in financial statements) questions. Questions within each section touch upon whole directives with just several questions. Several of the sections, topics or questions could be – and in some cases have been – a consultation in and of themselves.

Despite the wide range of directives and topics covered, in answering the questions, respondents are asked to "agree or disagree" with the questions or reply "don't know" when in fact the issues arising from the question are broader, more complex, nuanced or multi-pronged than the questionnaire schema allows for. From our perspective, the issues covered can be very broad and such narrow response options within a survey may result in a misinterpretation or mistabulation of our perspectives. For that reason, we are responding in this format.

We are concerned that it will be difficult for the Commission to draw meaningful conclusions based upon the wide-ranging nature of the topics covered – and the form of response collection. We believe specific questions on the elements of directives or regulations mapped to their objectives would likely result in more meaningful feedback.

Further, investors may be challenged to provide you with as meaningful input as preparers and special interest groups. Investors focus on the information provided by directive or regulation, not the regulation or directive establishing the requirement for the information. Without direct outreach to investors, we would caution drawing any meaningful conclusions from the responses, as we do not believe that the mere number of responses received should outweigh a lack of meaningful feedback from investors, who, in our opinion, are meant to be served by many of the directives that are the subject of the survey.

Multiple & Mixed Objectives
The table on Page 7 of the Consultation, explicitly highlights multiple objectives of the various directives and regulations. The questions within the Consultation imply even more objectives for the disclosures provided by the directives or regulations. For example, that IFRS should have as an objective sustainability and long-term investment, that IFRS standards should not be endorsed if it does not support specific EU needs, or if the EU believes the standards do not portray a true and fair view. While the broad construction of the questions with narrow response options makes responding to the questions challenging – as we highlight above, further complicating the ability to respond are the mixed or conflated objectives. The Consultation sections and questions imply objectives from financial reporting for public companies, financial reporting for non-public companies, management reporting, prudential regulations, cross border business, promotion of small and medium-sized

enterprises, long-term investment, sustainability goals, and public or social policy objectives, and EU-specific policy objectives, etc.

Further, respondents will have many different perspectives depending on their objectives and this mixing or conflating of objectives by seeking comments at the directive or regulation level makes is challenging to assess how different stakeholders perceive and respond to the questions.

Global investors in public companies may not have objectives that are congruent with the multiple objectives implied by the questions. Further at times even when discussing listed companies, the Consultation does not seem to have investor protection as a primary objective.

We highlight below several key illustrations where investors have differing objectives than other stakeholders, but where primacy of investors must be considered.

Reporting for Prudential Regulation vs. Investment Decision-Making
Several places within the questionnaire allude to the notion of financial reporting for investors and prudential regulators as being one and the same. We believe it is essential to highlight that financial reporting for listed companies (and private companies who seek access to even private borrowings) should not be the same as the reporting to prudential regulators. We have long held the position that, while investors care about solvency and prudential regulation, financial reporting should not be the basis for ensuring that prudential regulatory objectives are met. Prudential regulators have, by legal mandate, the right to require access to, or submission of, any information they perceive is relevant to meeting their public policy mandates. Investors do not have this authority. Accordingly, to conflate the objectives through similar accounting mandates or to overlay prudential reporting onto public company reporting leaves investors at a disadvantage. Our long-held belief – and our advocacy position – is based upon our view that when the information objectives of common shareholders are met, the information needs of all other providers of capital are met as well, given that common shareholders hold the residual economic interest of the enterprise. We do not believe, however, that the objective of financial reporting for investors is synonymous with providing prudential regulators with the information they need to accomplish their objectives.

Environmental, Social, Governance & Sustainability: Financial vs. Non-Financial
The EC Fitness Check requests input on the "non-financial directive". This area of financial reporting and how it is being integrated in the investment decision-making process is evolving rapidly and presents both opportunities and challenges. We see a demand for environmental, social, governance and sustainability information from many different directions in the investment community, but there are differing definitions of these terms and what "integration of ESG and sustainability factors into the investment decision-making process" means is varied. There are also calls for such information not necessarily from investors, but those with other social or political objectives.

Today, ESG factors and a range of non-financial disclosures are created in a fashion that is hard to discover, complex and time consuming to analyse and extremely difficult to compare. Little wonder that many investors utilise third party rankings based on separate (and overlapping and expensive) ESG surveys to inject certain sustainability factors into their portfolio construction. There are a significant number of different frameworks, that involve marked overlaps and that use different terms for similar concepts. A consistent and converged taxonomy that works across the different frameworks is required, and this requires considerable collaboration in order to achieve the necessary harmonised vocabularies. It may well be that the EC is uniquely placed to bring this about. Once achieved, the utility of ESG data will be greatly enhanced. Furthermore, we recommend that this work be undertaken from the outset with a view to the digitalised disclosure of this information.

We think there is conflation of objectives between the objectives of IFRS and sustainability as in Questions #20 & #21.

The EU Reporting Framework Should be Consistent with Serving Investor Objectives
Any EU endorsement process or conceptual framework should have as its primary objective that of providing investors with the information they need for investment decision-making. It should not be used as a tool to override IFRS standards in favour of ill-defined objectives such as "sustainability", "long-term investment" and "true and fair view". In our view, investors have always cared about long-term investment and sustainable business models. However, as we discuss more fully below, we are concerned that others may use these terms as justification for accounting at amortized cost rather than at fair value, to avoid quarterly reporting requirements, or to reduce transparency to investors. With IFRS as the principal source of financial results, investors worry about efforts to override IFRS or conflate objectives.

Preparer Perspective
Certain questions, and the framing of certain questions, seem highly preparer focused. For example, Question #3 states that legislation and standards tend to frame information "up to a more demanding level" than would be required for a "business as usual situation" that would normally be fit for a company's "own purposes," and then asks whether the cost of such legislation and standards are proportionate to the benefits generated. This phrasing is concerning as it suggests that regulations and standards are inherently onerous for companies when, in fact, companies should be held to a higher standard when they seek capital from third parties.

Costs v. Benefits: A Focus on Costs of Compliance
Will Not Capture the Benefits of Standardized Reporting to Investors
Question #4 asks for the costs of complying with the various directives and regulations without providing substantial detail on what should be tabulated and whether the cost tabulated includes the cost of complying with all of the reporting objectives (private company, listed company, prudential, non-financial, etc.). Similarly, Questions #5 and #6 appear directed at eliciting concerns regarding duplications and redundancies in reporting requirements, and additional reporting obligations, without room for commenting on the benefits of consistent reporting across jurisdictions that accrue to investors. There is no reciprocal question on the cost to investors of moving away from IFRS to national standards or EU regional standards with carve-outs and/or carve-ins.

This Consultation question highlights an age-old issue – it is always easier to quantify the cost to preparers of complying with legislation and standards whereas the benefits, such as reduced investor costs, increased access to the capital markets, or lower costs of capital are less easily quantified.

A good example of this is the cost of adjusting for estimated leasing liabilities prior to the IASB's recent adoption of the new leasing standard. Investors globally have made this adjustment for decades but never have the costs been tabulated. Digitisation is another illustration of this. It is obvious that digitisation entailed initial costs for preparers in the U.S. However, the benefits of having an XBRL database that provides standardized information that is readily accessible to investors is almost incalculable. The cost reduction to investors in being able to access standardized data from a single access point is substantial, as evidenced by tools such as idaciti and CalcBench as we discuss more fully in Section V. Analysts can research virtually any aspect of public reports by inputting just a few search terms. Similarly, the benefits of integrated reporting are significant, and no less important due to the difficulty of measuring them in quantitative terms.

We urge the European Commission to be mindful of this asymmetry in quantifying costs and benefits of various aspects of public reporting when reviewing the responses to the EC Fitness Check.

EU Value Add: Promoting and Establishing Consistency of Reporting
As an overall matter, we strongly believe that the EU is the right level for achieving consistency of reporting – whether it be for financial or non-financial measures. The EU can add value by promoting and establishing consistency of reporting (Question #7). We believe the EU is uniquely positioned to establish consistency across borders, and we fully support its efforts in this regard. As we note in

Section III, investing is a global undertaking with investment choices made globally. Accordingly, comparability and consistency of accounting and reporting is essential to making informed investment decisions. As such, we believe the extent to which the EU can create consistency across borders is essential. Without it, investors must expend additional resources and incur additional costs in creating adjustments – as best they can – externally to arrive at consistent and comparable results.

II. THE FINANCIAL REPORTING FRAMEWORK APPLICABLE TO ALL EU COMPANIES

In general, this section seems designed to elicit the impact of the financial reporting framework and the Accounting Directive on companies' "cross-border business activities." It appears that the questions are more focused on companies *transacting* across borders (see especially Questions #8 and #10), rather than investors *investing,* or *companies accessing capital from third parties*, across borders. That said, there is discussion of the "comparability of financial statements for users," but it is not clear which users are being referred to. Question #9 alludes to questions that would be of interest to common equity holders (e.g. dividend rules, corporate governance standards) while other questions imply the use of financial reporting with respect to executing commercial transactions – not necessarily providing of capital. Not all users have the same information needs. Accordingly, the nature of the respondent and their affiliation as users may result in very different responses to the questions. We respond to the questions from the perspective of investing in or providing capital to a reporting company.

Consistent Standards Facilitate Cross-Border Transactions & Investing

In general, we firmly support the promulgation of consistent standards, as we believe it facilitates the effective allocation of capital between jurisdictions. Thus, regarding Question #8, we believe differences in standards seriously hinder the ability to do business in the EU; and regarding Question #9, all of the items listed create differences that investors must assess and price in their valuation decisions. Differences create inefficiencies and costs that increase the price of capital and reduce the attractiveness of investment. These differences are examples of costs that are not accumulated and tracked in the cost benefit analysis done by many policymakers as we noted above. The short-term incremental costs of public reporting requirements may be more obvious than the increase in the cost of capital over the longer term, yet the latter may well be more significant.

Regarding Question #12, as noted above, investors prefer a single-set of global accounting standards. As we articulate more fully in Section III, we believe that the IASB is best positioned to provide such standards. Investors nearly unanimously agree that IFRS has been effective at reducing the diversity of national accounting standards and increasing the quality of accounting standards across the EU. We strongly disagree with all of the proposals that suggest the development of EU regional or national accounting standards or any other commonly agreed EU standard that is not IFRS. We think the adoption of this variability would substantially harm investors and their ability to efficiently compare investment opportunities within the EU and with investment opportunities in other jurisdictions.

Finally, regarding the ability of Member States to exempt subsidiaries from publication of individual financial statements if certain conditions are met (Question #13), it would be helpful to know the percentage of companies that avail themselves of this option before deciding to extend this optionality. That said, investors are interested in subsidiary financial statements in addition to the consolidated financial statements as they provide the ability to assess the health of the individual components of a consolidated group – particularly in enterprises where there may be restrictions in the cash flow from subsidiaries.

Taxable Profit vs. Financial Reporting Profit Before Tax

Question #11 queries whether public company profit and loss before tax should be equivalent to taxable profit. Investors are quite used to taxable profit being different from accounting (financial reporting) profit and loss. We do not think it is realistic to conform taxable profit to accounting (financial reporting) profit and loss as the underlying objectives are different. For example, investors prefer fair value measurement of certain financial instruments where taxing authorities may not view

these as taxable events. That said, to the extent that taxable profit can become more uniform, investors would welcome greater uniformity of these book to tax differences between EU jurisdictions as it allows for easier analysis.

This is an example of a question where asking for the level of agreement does not seem appropriate and responding “don’t know” doesn’t seem appropriate. In this case, “Other” with an explanation box would seem most appropriate.

SME Reporting Regimes Reduce Transparency and Increase the Cost of Capital

CFA Institute has long articulated that different reporting regimes based upon size create the illusion of reducing the costs of obtaining external capital. The costs of preparing financial statements may be reduced – a measurable cost many companies and policymakers focus on. Investors, however, price this lack of transparency and research suggests the cost of capital rises. We do not support different reporting regimes based on size of the entity. However, to the extent that there continue to be different reporting regimes based upon size, the size categories should be consistent across jurisdictions (Question #15), as inconsistency would only add another layer of confusion for investors.

Our 2015 publication, *Addressing Financial Reporting Complexity: Investor Perspectives*, highlights the undue complexity of different accounting regimes.

Improvements in Financial Reporting

Questions #16 and #17, are quite broad, requesting comment on whether the content of financial reporting is relevant in several areas, and whether anything important is missing. We have numerous publications advocating for improvements in financial reporting including our 2013 publication, *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust & Volume*, and our 2007 publication, *The Comprehensive Business Reporting Model*. In these publications, we highlight improvements that should be made in financial statement presentation, the statement of cash flows and disclosures. We highlight other areas where we think the current accounting framework could be improved for economic changes and value creation. For example, we identify that the current accounting framework fails to recognize the value of many technologies companies because it fails to recognize intangibles and we see improvements that can be made in financial services companies.

This is an example of a question that could be subject of an entirely separate consultation.

We would also highlight that while we see the need for improvements in reporting, we believe independent standard-setters such as the IASB should be the organizations to provide for such changes.

Alternative Performance Measures Are Valued but Should Be Standardized
CFA Institute has published our member views on alternative performance measures (APMs) (Question #18)[2]. Our members have expressed the view that APMs have a distinct role that is valued by investors, and many of them support use of these measures. At the same time, there is broad recognition that they are subject to management manipulation and that more needs to be done to standardize, improve the comparability and enhance enforcement of APMs and that, ideally, such standardization should be shepherded by the authoritative bodies responsible for accounting and disclosure requirements.

III. THE EU FINANCIAL REPORTING FRAMEWORK FOR LISTED COMPANIES

Global Investing Requires Global Accounting Standards
Investing is a global undertaking. Every day, investors choose between investment opportunities in markets across the globe. Because financial information and financial reporting are central to the investment decision-making process, CFA Institute has long been a supporter of a single-set of high-quality accounting standards. In fact, the CFA Program includes IFRS as the basis for the Financial Reporting and Analysis (FRA) portion of the curriculum. In 2005, our organization changed the CFA Program curriculum to be based on IFRS, with a comparative reference to US GAAP. Prior to that time, the financial reporting curriculum was based upon US GAAP with a reference to IFRS. With the adoption of IFRS by many countries, the increasingly global nature of our membership, and the increasingly global nature of investment decision-making, we believe preparing CFA candidates with a working knowledge of IFRS is very important. While disappointed by the U.S. not advancing its adoption of IFRS for domestic filers, the SEC has signaled its acceptance of IFRS by allowing foreign filers to submit their financial statements on an IFRS basis without reconciliation to U.S. GAAP – an important milestone for global consistency of accounting standards. Should European companies who are dual listed in the U.S. become subject to national or regional accounting standards or a plethora of carve-ins and carve-outs from IFRS, we would expect they would be required to reinstate their reconciliation to U.S. GAAP when filing their Form 20-F. This would be a cost consideration for many large EU companies who currently follow IFRS.

Our numerous member surveys show majority support for even greater convergence of standards. CFA Institute specifically, and investors more broadly, were disappointed by the IASB and FASB's movement away from the 2006 Memorandum of Understanding and the inability of the IASB and FASB to reach convergence on the accounting for financial instruments and for the differing income statement presentation of leases. Different accounting for transactions based upon the regional location of a parent company's domicile is an ineffective and unfortunate result for investors who seek comparability of financial information to make relative investment choices. Investors should not be responsible for decoding national standards. The cost of converting companies to comparable results is expensive for investors and is a cost not typically considered by policymakers in their cost/benefits analysis as we discuss above in Section I. We believe the Consultation is missing an important question regarding the cost to investors of disparate accounting bases and the cost of converting to similar and comparable results for investors – should there be a move away from IFRS.

We see any further divergence brought about by IFRS carve-ins and carve-outs as an extremely negative result for investors and one that will raise the cost of capital for those regions or companies availing themselves of regional rules where such divergence is possible.

---

[2] Our publications on alternative performance measures include:
Thought Leadership:
Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting
Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures
Blogs:
Solving the Conundrum Presented by Non-GAAP Financial Measures
Implications of the Wider Spectrum of Corporate Reporting

Question #19 and the response choices imply that the European Commission believes accounting standards are meant to address country specific needs rather than investors needs and that having consistent accounting standards puts listed companies within the EU at a competitive disadvantage. As we extensively describe above, modifying the content of IFRS belies the notion of a single-set of global accounting standards that investors have long supported because is increases comparability, transparency and decision-usefulness for investment decision-making. ***The belief – implied by the response options – that having regional standards would improve the attractiveness of investment in EU companies is opposite to the effect it would have. Further, policy's such as MiFID II – and the loss of coverage of companies generally – make this issue even more important issue.***

Our position is that policymakers and standard-setters time is best spent on seeking further convergence, rather than divergence, in accounting standards.

Sustainability & Long-Term Investment – We think this question highlights the commingling of objectives. Public, including listed, company reporting that relies on IFRS, and the endorsement process that supports it in the EU, should have as it primary objective providing investors with the information they need for investment decision-making. The provision of information in pursuit of other objectives should be parsed from the primary objective of providing investors with decision-useful information.

Investors have always cared about companies with a long-term focus and a sustainable business. How sustainability and long-term investing are defined by the EC and used in this Consultation are an essential first step in obtaining a uniform understanding of this question. (Questions #20 and #21)

Sustainability – Investors have always concerned themselves with whether an investee company has a sustainable business. The question is how broadly "sustainability" is being interpreted and whether the definition of sustainability encompasses a very broad definition of stakeholders and social objectives. How accounting standards fit into this definition must also be clarified by the EC to enable investors to understand what the EU perceives to be within the purview of organizations such as the IASB; other organizations who are working on sustainability or environmental, social and governance standards; and regulators who are creating similar rules in various jurisdictions. Parsing this definition is an essential first step for investors so that they can understand where and how far the various organizations remits extend and the required versus voluntary nature of such disclosures. As we describe above, a consistent and converged taxonomy that works across the different standard - setting frameworks is required, and this requires considerable collaboration in order to achieve the necessary harmonised vocabularies. It may well be that the EC is uniquely placed to bring this about. Once achieved, the utility of ESG data will be greatly enhanced.

That said, our view is that there are enough existing challenges with financial reporting that need to be addressed without overlaying this objective – with its many challenges – on the IASB.

Long-Term Investment – Investors investment horizons differ and the definition of "long-term investment" – even as it is used in IFRS is something that is ill-defined. We have disagreed with the use of this term in accounting standards for several reasons. First, the time-period (e.g.1, 3, 5, 10, 20 years) for something to meet the definition of long-term is never defined. Second, the term is generally used to justify accounting at amortized cost rather than fair value or deferring the recognition of losses. Our long-held belief it that knowing the fair value does not deter long-term investment – it simply allows investors to make more-timely and better-informed decisions. Third, long-term investment is used by some to mean the elimination of quarterly reporting. CFA Institute Research Foundation published a report in 2017, *Impact of Reporting Frequency on UK Public Companies*, by Pozen, Nallareddy and Rajgopal where it was found that that the frequency of financial reports had no material impact on levels of corporate investment. However, mandatory quarterly reporting was associated with an increase in analyst coverage and an improvement in the accuracy of analyst earnings forecasts.

As with sustainability, we believe the EC should define what it means by long-term investment. We don't believe the endorsement process should override IFRS for objectives without commonly agreed definitions. Otherwise, we fear the reduction of the neutrality of financial reporting. Said differently, the call for long-term investment will not be answered by changing the endorsement process for accounting standards.

Overall – The development of IFRS standards includes a feedback process and investors whether in the EU or elsewhere can advocate their views to be incorporated into the standards. We do not support an EU endorsement process that incorporates other objectives – which as the question response options indicate, in this section on reporting for listed companies, may not have investor primacy as their primary objective. Further, for the IASB to incorporate these objectives in their standard-setting process would require a reconsideration of their mandate and due process.

We believe the EC should better define these terms and under what circumstances they believe IFRS and its conceptual framework differ from the needs of the EU. This will help investors understand whether the EC objectives are aligned with those of investors and the objectives of reporting for listed companies.

***True & Fair View* –** We do not support the use of a "true and fair view" principle as it is generally used to implement an accounting standard that is not supported by a recognized set of accounting principles upon which the financial statements have been prepared and therefore negates the basis of presentation. There is too much subjectivity involved in the adoption of a true and fair view approach. We do not support an EU conceptual framework that would incorporate a "true and fair view" nor underpin the EU endorsement process. (Question #22)

***Conceptual Framework* –** A framework for the IFRS endorsement process might be a useful undertaking to the extent that is explains how and on what basis standards are endorsed. That said, we do not support a EU conceptual framework that seeks to open the door for substantial differences from IFRS as this would belie the objective of a single-set of global accounting standards. We support the IASB having its own Conceptual Framework and the EU participating in the due process around its development. (Question #23)

***Prescribed Balance Sheet & Income Statement Layout* –** In our *2007 Comprehensive Business Reporting Manual* we proposed a format for the basic financial statements – including the statement of cash flows. We think it would be challenging to find definitions and presentations in a minimum layout format that would work for every industry. While there are issues with subtotals, we have previously commented that the central issue with both the various income statement measures and the proliferation of non-GAAP or non-IFRS type alternative performance measures is the lack of disaggregation on the income statement and a need for an improved (direct method) cash flow – along with the addition of balance sheet rollforwards. Investors will always adjust presentations to suit their analysis so finding a commonality will be challenging. That said, we recognize the IASB is currently working on a project in this regard and we believe the best way to address this issue is through global standard setting, not EU specific mandates. (Question #24)

IV. THE EU FINANCIAL REPORTING FRAMEWORK FOR BANKS AND INSURANCE COMPANIES

While we believe that insurance and banking reporting requirements should be updated for developments in accounting standards, such as those establishing new financial instruments accounting, accounting for expected credit losses and the accounting for insurance contracts (Question #33), we do not believe that public company reporting and supervisory/prudential reporting should be aligned (as we outline above). In particular, supervisory regulators have access to more information than investors and can demand information from the companies they supervise, and supervisors and investors also have different objectives in reviewing financial information (e.g. safety and soundness concerns versus efficiency and return on capital). As a result, we believe that it should not be a priority to standardize and align public reporting and supervisory reporting, and that any inconsistencies *per se* should not necessarily be a concern (Questions #38 and #39) as long as there are sound objectives supporting the different requirements.

Furthermore, regarding the overall effectiveness, coherence, and relevance of the Bank Accounts Directive (BAD) and the Insurance Accounting Directive (IAD) (Questions #31 and #37), we believe a more detailed survey or study that compares the requirements of these directives to IFRS (e.g., a gap or overlap analysis) is needed before meaningful input can be provided. The same holds true in order to make any meaningful decisions regarding suppressing these directives in favour of IFRS (Question #32), and regarding whether bank subsidiaries should be allowed not to publish financial statements subject to certain conditions (Question #36).

Finally, consistent with our previous comments, we agree that mandatory use of national standards for banking subsidiaries reduces comparability and therefore efficiency for investors and allowing or requiring the use of IFRS for banking subsidiaries would increase efficiency for investors (Question #35). Options, whether in the BAD or IFRS, always reduce comparability and therefore we do not support them (Question #34).

V. NON-FINANCIAL REPORTING FRAMEWORK

Extractive and Logging Industries
Similar comments as to the banking and insurance directive questions in Section IV. (Questions #51-#53)

Integrated Reporting
CFA Institute has supported the efforts of the International Integrated Reporting Council with respect to integrated reporting. As we noted in our 2016 letter to the Financial Times, *Investors Too Need to Be More Rigorous* we see the International Integrated Reporting Framework very much in-line with the desire for long-term value creation. We clearly see the potential to improve investment decision-making and reduce costs for investors and for preparers to improve the cohesiveness of disclosures and communication of risks and results. As with our comments above, it will be much easier to tabulate the costs of preparers compiling integrated reports than the benefits investors will derive from a more complete and cohesive articulation of a company's strategies, risks and results. We are clearly in favour of a move towards more integrated reporting in the EU. We believe that not only is consistent financial reporting in the form of IFRS integral to financial analysis but also a framework that helps communicate risks and value creation in a more integrated way is also very important. With calls for additional types of disclosures (e.g. sustainability) we think a framework for articulating how they fit into long-term value creation is becoming more important. We think a comprehensive mapping of the EU reporting framework to the integrated reporting framework – something not possible in the time allowed by or the comprehensiveness of this Consultation – would be necessary to be able to provide meaningful commentary on whether the EU framework is an obstacle. We would propose this be done and submitted for public consultation. (Questions #54-56)

VI. THE DIGITALISATION CHALLENGE

Need for Standardized Terms

Digitalisation will clearly enhance cross-border data analysis and comparison, and the slow adoption of digitalisation in the EU has clearly been a hurdle to investment analysis. As digitalisation is further developed in the EU, we note that in order for electronic structured data to provide benefits, the definitions must be standardized. It has taken over a decade for XBRL to be integrated into US reporting, and there have been many lessons learned along the way. We strongly encourage the EU to learn from the experiences of the US market in this regard and as noted above, we believe rapid development is essential. ***Divergences from IFRS as promulgated by the IASB will only be detrimental to the standardization and digitalisation processes.*** (Question #57)

Moreover, if digitalisation is to be used – something we support – for financial information on top of the annual financial statements, such as the half-yearly interim reports, management reports, corporate governance statements, and other requirements under the Transparency Directive, and for non-financial information as well (Questions #60 and #62), standardization of terms and definitions is similarly critical. Labels, definitions, concepts and taxonomies must be standardized across the board to ensure that digitalisation fully achieves the objectives of improving transparency and reducing the cost of access for investors and the public, and potentially also ultimately reducing the cost of reporting for preparers.

As it relates to standardization for supervisory purposes (Question #66), we support standardization to the extent that the underlying terms are defined similarly but we do not support standardization that includes tagging supervisory terms as IFRS terms, for example. A simple illustration of this is the term "boot". To some this is the trunk of their car, to others something they wear on their feet and for others, boot is consideration given in a tax exchange. All uses of the term require a different tag. We do not support tagging that commingles or drives supervisory terms into public financial reporting terms.

Lowering the barriers to entry in the analytics field, whether carried out directly by investors and analysts, through startups that can use digitised and open data, or by retail investors themselves, is a strong reason for a policy bias toward standardized and digitized data that emanates from companies directly. Without structured data that comes directly from the company and that can be legally relied upon, the core analytics that support decision making will be badly impaired in the future. In an environment that increasingly pulls together data for use within Augmented Intelligence (AI) systems or through other forms of AI-enhanced analytics, reliable structured fundamental data is a key competitive advantage that policy makers should consider in their cost/benefit considerations. For the most effective use of data and AI, companies – under a standardized taxonomy – should structure the data not the external users be they man or machine.

Paper-Based Reporting Still Relevant

At the same time, we believe that paper-based reporting is still relevant for many investors. However, dual filing is not helpful to investors as it may lead to errors and inconsistencies between the PDF report and XBRL filing and cause confusion over which is the "official" version. (Question #58).

We believe the solution to this issue is the implementation of iXBRL (In-Line XBRL), as it provides a means of viewing the XBRL filing itself in a human-readable, understandable and familiar format. This avoids the need for a separate means of converting machine-readable digitized reporting to a human-readable form. We would note this is something the US SEC has just mandated.

A human-readable version of an XBRL report is useful to both filers and users in ensuring the filing is accurate, consistent, and complete; it also renders a separate PDF filing unnecessary. Issuers in the EU currently use iXBRL for reporting to tax authorities and other official bodies. iXBRL is also in use in other countries such as the UK and Japan. We maintain that for regulatory purposes, iXBRL is

the most suitable format for mandatory use. Of course, this does not prevent companies from providing supplementary PDF versions of annual reports, for example, on their websites.

We are concerned that regulatory organizations even though requiring iXBRL may still require a PDF file because they will consider the PDF file the official audited version with the iXBRL version simply meant to enhance readability and accessibility. We believe the iXBRL file should be audited to ensure that it is of the same integrity as the PDF file. Without being of the same integrity or reliability as the PDF file, investors may be deterred from using the iXBRL file. If this happens, the benefits are diminished.

Single Access Point

The adoption of a single European Electronic Access Point (EEAP) would also greatly facilitate cross-border investment analysis, and thereby enhance the capital allocation process (Questions #59 and #64). With regard to allowing companies to re-use data for different purposes by different authorities, we believe that information should be permitted to be "filed only once" only if the information required is exactly the same. We do not support a system whereby companies are permitted to use information filed with one authority to satisfy the requirements of another authority if the information is only similar or somewhat the same.

Electronic Signatures

Finally, we believe that electronic reporting should be secured by the reporting company with electronic signatures, seals, and/or other trust services (Question #63). We believe this will provide assurance to both reporters and users that the information filed is in fact the official, authorized version provided by the reporting company.

****

Thank you again for the opportunity to comment on the EC Fitness Check. If you or your staff have questions or seek further elaboration of our views, please contact Sandy Peters by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Head, Global Financial Reporting Policy

cc: Josina Kamerling, Head – EMEA Regulatory Outreach
Kurt Schacht, Managing Director – Advocacy and Government Relations
Alain Deckers, Accounting and Financial Reporting, European Commission
Hans Hoogervorst, Chair, International Accounting Standards Board
Steven Maijoor, Chair, European Securities Market Authority
Wes Bricker, Chief Accountant, U.S. Securities and Exchange Commission