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Mr. Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Re: ***Comment Letter: Disclosure Requirements in IFRS Standards – A Pilot Approach: Proposed Amendments to IFRS 13 and IAS 19***

Dear Mr. Barckow:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the International Accounting Standards Board ("IASB" or the "Board") Exposure Draft ("ED" or "Exposure Draft") on *Disclosure Requirements in IFRS Standards—A Pilot Approach: Proposed Amendments to IFRS 13 and IAS 19*.

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. We are providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the CDPC.

Background

We appreciate the IASB's efforts to improve communication in financial reporting, as this is consistent with our goal of increasing the transparency and understandability of companies' financial reporting and disclosures. Disclosures provided in conjunction with financial statements are essential to an investor's understanding and analysis of the economics underlying the information contained in the statements, as well as the processes managers have used to produce the financial statements and disclosures. Disclosures must provide information sufficient for investors to understand and

[1] With offices in Charlottesville, New York, Washington, DC, Brussels, Hong Kong, Mumbai, Beijing, Shanghai, Abu Dhabi and London, CFA Institute is a global, not-for-profit professional association of more than 181,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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properly evaluate changes in the equity of the company, the quality of reported earnings, and other financial statement metrics – and to make forecasts about the future prospects of the company. Our 2007 report, *A Comprehensive Business Reporting Model: Financial Reporting for Investors* ("CBRM") sets forth our conceptual framework of an integrated business reporting model and the role disclosures play in complementing financial statements and providing a necessary understanding of an investee company's results and future prospects. In our 2013 report, *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust & Volume* (the "Disclosure Report") we addressed the growing false narrative about disclosure overload and the importance of disclosures in providing investors with the necessary transparency they need to make effective investment decisions.

Perspectives on the Consultation Document That Impact Our Response

As an overall matter, we are concerned that the IASB has not provided a detailed analysis of the changes proposed to IFRS 13 and IAS 19 by providing a blacklined version of the proposed standard to the existing standards – which would clearly show the "before and after" effects of the proposed amendments to the disclosure requirements. We are disappointed that the IASB has left this exercise to be performed by reviewers of the ED, as we believe few constituents will have, or take, the time to undertake the extensive analysis required to understand the exact nature and impact of the changes being proposed. We, therefore, strongly encourage the IASB to provide a blacklined version of the proposed amendments, as well as a summary of their contemplated effect, for both this ED as well as for future disclosure-related proposals in order to ensure that the IASB receives meaningful feedback on the changes proposed.

We find it curious that the IASB has commenced this pilot project with standards such as IFRS 13 and IAS 19. IFRS 13 is not yet ten years old, so it seems odd that the Board believes that such a "young standard" – in accounting years – needs modification. While IAS 19 is much "older," what IFRS 13 and IAS 19 have in common is that they relate, respectively, to fair value and pension accounting and disclosures – and result in some of the most lengthy footnotes to the financial statements. The need for improvement in financial statement disclosures should not, however, be judged by the length of the disclosures but by the quality and decision-usefulness of the information they produce. Because both standards relate to large, and highly subjective, asset and liability balances, it seems they would or should garner a significant amount of financial statement footnote real estate. In reading the Exposure Draft, we not only can't determine in a concise manner (i.e., no blacklining) the changes – likely subtractions – that are being made, but the reason why these standards – other than their length – are deemed to be in greatest need of revision.

In our view, this project seems to be at least partly driven by the "disclosure overload narrative" which falsely permeates the accounting, preparer and standard setter community but does not exist within the investment community – where we see investors seeking more and better disclosures about not only financial statement disclosures but also related to ESG and sustainability. As we discuss in more detail below, we disagree with the IASB regarding the nature and root causes of the "disclosure problems" that our investor members have identified and communicated exist. We recently addressed the importance of financial statement presentation and disclosures in our IASB Agenda Consultation Comment Letter. There we highlight that the work being done by the IASB on financial statement presentation and disclosures is not in-line with investor requested improvements.

Given the lack of a fully blacklined version of the proposed IFRS 13 and IAS 19 changes in the ED and our concern that this Exposure Draft is meant to "cure disclosure problems" not seen as existing by investors, CFA Institute has elected to limit its comments at this time to overarching themes rather than a detailed commentary on the changes proposed to IFRS 13 and IAS 19 as they are not obvious to investors and other users of financial statements and they are not necessarily being made at investors' behest.

Executive Summary

Our key comments are summarized as follows:

- An optimal approach to a ***disclosure framework is one built on both principles and specific requirements***; by removing requirements to disclose specific items, ***the IASB's proposed approach does not strike the right balance between principles and rules***.
- A properly designed disclosure objective framework should ***address preparer estimates, choices, risks and uncertainties and their impact on reported results and future cash flows***.
- ***Investors do not see the "disclosure problem" as too much irrelevant information being disclosed***. Rather, investors see "the disclosure problem" as consisting of disclosures devoid of information content; boilerplate, vague, overly condensed or generic disclosures; and redundant disclosures. Accordingly, ***we believe a more appropriate focus should be on improving how disclosures are communicated***: for example, with the increased use of tables and charts and other standardized formats to better display financial information, and by using technology to emphasize matters of importance.
- The ***Board should reconsider root causes of the disclosure problem*** by undertaking an empirical study to reconcile investor and preparer views on the underlying disclosure issues.
- ***We disagree with the Board's proposal to eliminate language such as "shall disclose" and "at a minimum" and replace it with phrases such as "while not mandatory***, the following information may enable an entity to meet the disclosure objective" as ***this represents a move from one extreme (everything is required) to another (nothing is required)***. We believe that if the IASB perceives that there is an issue with materiality judgments, then this is most appropriately addressed via the IASB's standard on materiality.
- The ***reduction in mandated disclosures*** will ***reduce comparability and negatively impact the quality of financial statements***. It will ***increase audit and enforcement challenges***, may result in ***eliminating too much information***, and will ***impair comparability for users of financial statements***. We are also concerned that it will be ***more difficult for disclosures to be tagged*** and standardized for XBRL purposes – just as the European Union begins developing a database of tagged data.
- ***Disclosures should not be reviewed in isolation*** but should be developed and reviewed in conjunction with the associated accounting standard to avoid "shadow standard-setting."
- The ***IASB should align its disclosure reviews with investor priorities*** and focus on areas for which investors have consistently requested more and better information, such as ***segment disclosures, revenues and expenses, and cash flows***.

We discuss these points in more detail below.

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Overarching Comments

IASB Disclosure Framework: Principles and Specific Rule Requirements, Not Simply Objectives

We believe that the optimal approach to a disclosure framework is one based on a combination of principles, which we describe more fully below, coupled with specific requirements. While principles are important to ensure that practitioners understand the objective of the disclosure, specific requirements are essential for ensuring some base level of comparability among companies. They also enable investors to readily search for and compare disclosures among companies. We also advocate the greater use of tables and other standardized formats as this further facilitates investor analysis across industries, sectors and companies. In this regard, we are concerned that the approach proposed by the IASB in this ED does not strike the right balance between disclosure objectives and detailed disclosure requirements. ***While the IASB has proposed "items of information to meet specific disclosure objectives," we understand that such items may or may not be required to be provided. We are very concerned that the removal of requirements to disclose specific items may lead to an overall worsening of disclosures in practice and may impair comparability. We are also very concerned that the overall and specific disclosure objectives as drafted for the two test standards are too high-level in nature and that the inclusion of "items of information to meet specific disclosure objectives" makes disclosures far too voluntary and subjective, as we explain in more detail below.*** We believe a better approach is to set forth a baseline of required disclosure items, and for such disclosures, the general materiality principle of IAS 1, *Presentation of Financial Statements*, would be applicable—just as it is today—such that information would only need to be disclosed if material to the entity. We are concerned that, should the IASB proceed with the proposed approach, the hurdle for auditors and regulators to challenge issuers who are not willing to be transparent by providing relevant disclosures in financial statements to inform investors would be too high.

Disclosure Objective Framework Should Address Preparer Estimates, Choices, Risks & Uncertainties and Their Impact on Reported Results and Future Cash Flows

As we have previously commented to the IASB, and in the CBRM, the role of disclosure is to provide a comprehensive explanation of events or transactions that have been recognized, including (1) the models, estimates, assumptions, and principles that were applied to measure the effects, and (2) the sensitivity of the reported information to changes in those principles and assumptions. To the extent that financial statement line items present aggregated information, disclosures must enable investors to disaggregate. The same qualitative characteristics of financial reporting (including understandability, completeness, relevance, and comparability) apply equally to the written disclosures that supplement the financial statements.

More specifically, in Chapter 4 of the CBRM, we outline what we believe should be the objectives and minimum content of financial statement disclosures. Specifically, disclosures must provide investors with all of the additional information they need to place the financial statement numbers in their economic context. At a minimum, this information must enable investors to fully understand:

1. Managers' accounting ***policy choices***;
2. The ***methods and valuation models*** (including assumptions, inputs, and other judgments) managers have used to implement the policy choices;
3. How these ***decisions have affected the recognition and measurement*** of individual financial statement items;
4. What ***degree of uncertainty*** is associated with individual measurements;
5. How to ***disaggregate the reported financial statement*** information into components that:

   a. Exhibit different economic characteristics and trends and
   b. Have differential and sometimes offsetting effects on the financial statements;
6. How the ***company's risk exposures*** (including market prices, interest rates, currencies, and event risks) might affect the company's operations and financial position;
7. How ***economic assets and liabilities that are not currently reported in the financial statements*** may affect the company's operations;
8. How the ***nonfinancial drivers influence financial statement results***;
9. The ***implications of the economics for the investor's forecasts*** of future events; and
10. How the ***investor's event forecasts will affect forecasts of financial statement components.***

Investors Do Not See The "Disclosure Problem" As Too Much Irrelevant Information
In setting forth its rationale for issuing the ED, the Board has stated that its current approach to developing and drafting disclosure requirements in IFRS Standards contributes to "the disclosure problem" — which it defines as entities providing "not enough relevant information", "too much irrelevant information," and "ineffective communication of the information provided", as well as a "checklist approach" to disclosure— in a number of ways.

Among those are cited a lack of specific disclosure objectives, which ostensibly prevents stakeholders from understanding how users of financial statements will use the disclosed information, and inconsistent drafting of disclosure requirements among standards. We acknowledge the fact that disclosure standards have been drafted at different points in time, leading to some inconsistencies in approach, but have not found this to be a meaningful root cause of disclosure issues. In addition, while we support the Board's efforts to provide greater clarity in setting forth disclosure principles and objectives, we do not see a lack of clarity regarding disclosure objectives as being the driving factor in disclosure shortfalls.

The Board also cites its use of prescriptive language in the standards such as "shall disclose" or "at a minimum," as another root cause of the "disclosure problem" – phrases which the IASB believes are interpreted by many stakeholders as overriding general materiality standards, and contributing to an erroneous belief among preparers that complying with the minimum disclosure requirements is sufficient to meet the information objectives of the standard.

Thus, the Board appears to be articulating a perception that financial statements currently include a high degree of immaterial information, and that by limiting the amount of "minimum required disclosures," the ED will remove a large amount of obfuscating and immaterial information and improve the perceived disclosure overload experienced by investors. However, our member surveys have consistently found that **investors do not believe financial statements include substantial amounts of immaterial information**. In fact, respondents to our surveys see disclosure reforms that provide more discretion to management and reducing the volume of disclosures as being the *least* important priority for standard-setters. (We discuss investor priorities in more detail in our recent IASB Agenda Consultation Comment Letter.)

The Board Should Reconsider Root Causes of The Disclosure Problem
More broadly, we do not agree that the "disclosure problem" is driven by the factors that the Board has cited. Rather, we identify "the disclosure problem," to the extent it exists, as frequently consisting of the following:

- Disclosures devoid of information content, such as those that parrot the requirements of a particular accounting standard (for example: "We account for employee benefit plans in accordance with IAS 19"), or the use of boilerplate text that does not change from year to year (or from company to company), except for the occasional substitution of a new number or two.
- Vague or overly condensed or generic disclosures, such as: "Our various classes of fixed assets are depreciated using a variety of methods, including straight line, sum-of-the-years' digits, and several declining balance methods, with estimated useful lives ranging from 5 to 40 years."
- Disclosures that are repeated in identical or near-identical form in multiple places in the financial statements.

We do not attribute any of the above disclosure problems to the way that current disclosure requirements are drafted, and therefore do not believe that the changes proposed by the ED will address any of these problems. In many instances, they represent a failure of application of existing disclosure requirements.

The Board Should Undertake Empirical Study:
Reconciling Investor & Preparer Views on Underlying Issue
We think it would be useful for the IASB to provide an empirical demonstration of the disclosure issues which they believe have led to the need for the ED. Much of what has been written to date on the issue, as we describe more fully in the Disclosure Report, stems from anecdotal observations of the preparer community rather than comprehensive studies of representative stakeholders, including users of financial statements, or an empirical analysis of disclosures. If financial statements include extensive amounts of immaterial information this should be readily demonstrable to investors given the public nature of the financial statements.

As a result of developing such an empirical demonstration, we believe a more tangible discussion of the perceived disclosure issue addressed by the ED could be had with investors. We believe it is important to reach consensus on the underlying disclosure problem before stakeholders can reach agreement on whether a change in the approach to disclosures in IFRS is the most appropriate way forward.

Materiality Issues Are Best Addressed Via IASB's Standard on Materiality
We are also opposed to the IASB's proposed approach to eliminate language such as "shall disclose" and "at a minimum" from the disclosure guidance because we believe that materiality judgements should be governed by the IASB's separate standard on materiality. We agree with the IASB's statement that "materiality [i]s an overarching concept that applies across all Standards, including all disclosure requirements." Accordingly, we believe that any attempts to clarify or amend materiality determinations should be affected via the IASB's existing standard on materiality.[3] ***As a result, we strongly object to the IASB's proposal to replace language such as "shall disclose" and "at a minimum" in each standard with the following language: "While not mandatory, the following information may enable an entity to meet the disclosure objective" – as it represents a shift from***

[3] In this same regard, we refer you to our recent comment letter to the Financial Accounting Standards Board on its *Invitation to Comment: Agenda Consultation.*

one extreme to another. We suggest the IASB refrain from providing any materiality guidance in the individual standards. If there is a real concern regarding the application of materiality, we believe the IASB should undertake a study to determine whether it stems from:

- an inappropriate articulation of materiality within IFRS;
- a lack of understanding and application of the concept of materiality by preparers; and/or
- disagreements between preparers and auditors/regulators regarding the application of materiality.

Moreover, we note that the ED states that in adopting the new approach, "[t]he Board will explicitly link every item of information included in the disclosure section of an IFRS Standard to one or more specific disclosure objectives. This will provide clarity about the relationship between the specific disclosure objectives and items of information and, therefore, help entities to make effective judgements about whether information is material." We are not particularly convinced that this approach will necessarily improve the application of materiality guidance by entities.

Reduction in Mandated Disclosures:
Will Reduce Comparability and Negatively Impact the Quality Of Financial Statements, The Focus Should Be on Improving How Disclosures Are Communicated

In addition, by reducing the minimum required disclosures, we believe that the Board is potentially creating more problems than it is solving. In this regard, we agree with the alternative view set forth by Mr. Edelmann, Mr. Gast and Ms. Lloyd that ***developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items will increase enforcement challenges, may result in eliminating too much information, and will impair comparability for users of financial statements.*** We also have concerns that, with more disclosures being optional or determined by the preparer we believe that it will be more difficult for such disclosures to be tagged and standardized for XBRL purposes – just as the European Union begins developing a database of tagged data.

Rather than focusing on reducing the amount of required disclosures, we see the appropriate objective for the IASB to be improving how effectively information is communicated to investors. Our member surveys have found that identifying ways to effectively capture, manage, analyze, present, and deliver financial data is the reform investors see as necessary. For example, investors consistently indicate a desire for the increased use of tables and charts and other standardized formats to better display financial information. If there is a perception that investors are losing key messages through obfuscating and immaterial disclosures, then investors believe that technology should be explored to emphasize matters of importance. The conversation needs to consider how technology can be effectively leveraged to provide the information investors need for investment decision making in a globally connected, data-driven economy. Investors do not seek a reduction in data or volume of disclosures as they have the ability to utilize technology to evaluate the data.

Disclosures Should Be Developed and Reviewed In Conjunction With The Associated Accounting Standard To Avoid "Shadow Standard-Setting"

As a general matter, we believe that a standard and its related disclosures are inseparably linked, and we advocate an approach wherein disclosure requirements should be developed at the same time as the recognition and measurement requirements, rather than at the end of a project – or after the project has been completed as is the case in this Exposure Draft. As our comments in the CBRM highlight, the disclosures must be treated as essential and indispensable commentary to the financial statements, rather than as a mere postscript. ***We are therefore opposed to a review of specific***

disclosure requirements without a concurrent review of the accompanying standard. We believe that such a piecemeal approach to formulating and amending disclosures can result in "shadow" standard-setting, whereby important aspects of the standard are effectively modified or eliminated via a change to the disclosure requirements. By removing certain disclosures, the Board runs the risk of changing the meaning and intent of the standard itself. Accordingly, we recommend a more holistic approach to disclosure review.

The IASB Should Align Its Disclosure Reviews with Investor Priorities
We do not agree with the specific standards that the IASB has selected for its pilot review, as we do not believe they are consistent with investors' priorities. IFRS 13 is a standard that was issued relatively recently, in 2013, and we are therefore surprised that it would be considered to need to be revised so soon after its issuance. As we have consistently highlighted to both the IASB and the FASB, **investor disclosures priorities are focused on areas such as segment disclosures, revenues and expenses, and cash flows**. Accordingly, we believe the IASB should focus on these standards for its initial review of financial statement disclosures.

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We thank the Board for the opportunity to express our views on the Exposure Draft. If you, other members of the Board or your staff have questions or seek further elaboration of our views, please contact Sandra J. Peters by e-mail at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

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