



Setting the global standard for investment professionals

20 November 2008

Linda Kelleher

Executive Vice President
National Investor Relations Institute
8020 Towers Crescent Drive
Suite 250
Vienna, Virginia 22182

Re: Standards of Practice-Earnings Release Content

Dear Ms. Kelleher,

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre),¹ in consultation with its Corporate Disclosure Policy Council (CDPC)², appreciates the opportunity to comment on the National Investor Relations Institute's *Standards of Practice—Earnings Release Content—September 18, 2008*.

CFA Institute represents the views of its investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. Central tenets of the CFA Institute Centre mission are 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 the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics* and *Standards of Professional Conduct*.

General Comments

We strongly agree with NIRI's stated objective to increase transparency by encouraging an open and effective flow of accurate and complete information between corporations and their

¹ The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 96,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

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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stakeholders. Investors and creditors need timely, relevant, complete, accurate, understandable, comparable, and consistent information in order to be able to evaluate the potential risk and return properties of securities and to determine appropriate valuations for them.³ The earnings release is more than a means of communicating periodic financial results of a company. It is also an essential means of disclosing comprehensive information essential to an investor's understanding and analysis of the economics underlying information contained in the financial statements. Investors require sufficient disclosure to be able to understand and properly evaluate changes in the equity of a company, the quality of reported earnings, and other financial statement metrics and to make forecasts about the future prospects of the company. The earnings release is critical to communicating this information and we feel that the NIRI guidance significantly enhances the reporting.

As noted in the United States Securities and Exchange Commission's *Final Report of the Advisory Committee on Improvements to Financial Reporting*:

"The quarterly earnings release, often the first corporate communication about the results of the quarter just ended, is viewed as an important communication. This communication often receives more attention than the formal Form 10-Q submission which often occurs a week or two later.

Investors and other market participants have expressed concern about various matters relating to earnings releases, including consistency of information provided in such releases, the timing of such releases in relation to the filing of the applicable periodic report, and the inclusion of earnings guidance in such earnings releases."

Specific Comments

Earnings Release Content In the second bullet on page 2, we suggest striking the reference to "pithy quotes". Suggesting that information be provided in this manner could encourage management to talk in sound-bites instead of providing content driven analysis of the subject matter. Management should be concerned with communicating a clear and coherent message about the company's current operations and long-term strategic vision rather than attempting to create media quotes.

Template for Quarterly Earnings Release Content-We strongly agree with NIRI's suggested recommendation that companies provide consistent and complete information in plain English. Masking financial performance in descriptions and analysis buried in complex jargon and technical language will only confuse the reader. Communicating financial results in a thorough yet clear manner is consistent with the overall objective of the guidance, namely to increase transparency and to promote an open flow of accurate and complete information.

Section F. Non-GAAP Financial Measures-We agree with the suggested disclosures and reiterate that non-GAAP and nonfinancial information provide critical insights into the risk and economic

³ CFA Institute *A Comprehensive Business Reporting Model* July 2007 pg.6



exposures of a company. Communicating this nonstandard information should be done in a manner that is insightful and constructed in a non-boilerplate fashion. We further suggest that positioning of non-GAAP disclosures should occur within immediate proximity of GAAP to non-GAAP reconciliation tables. It is important for users to understand the true nature of adjustments to GAAP to avoid confusion⁴.

Section G. Senior Management (Chairman, CEO or President) Quote- We suggest that the quote should frame the quarter's results in the context of both the company's near and long-term goals and strategies. Further, we also suggest that in the sentence that immediately follows this, that it includes reference to the company's long-term goals and strategies.

Section H. Key Event and Changes- We suggest you explain "key events and changes", including non-financial events such as changes to: 1) Board of Directors and, 2) governance practices and other material non-financial changes.

Section I. Gross Profit or Margin, Cash Flow and Other Measures- We agree with the recommendation of the Final Report of the Advisory Committee on Improvements to Financial Reporting to the SEC (CIFiR) that companies provide more industry and company-specific key performance metrics. As noted in the CIFiR report, the key performance metrics should:

- Be clearly and consistently defined to facilitate investors' understanding of the meaning of key performance indicators.
- Be disclosed, as relevant, on a company and/or segment basis
- Permit cross-company and cross-industry comparisons.

Provide other measures of performance and explain why management considers them important.

Section J. Segment/Line of Business Information- We suggest that you add a comment stressing the investors face major challenges when analyzing companies with multiple lines of business or that operate in different countries with consequent differences in legal, regulatory, and tax regimes. Communicating insights into sources of past, present and future earnings as well as relevant risk factors of key operating segments is critical to investors.

Section N. Financial Statements- Given the importance of the balance sheet to investment decision making we believe that companies should present a roll forward of the balance sheet between reporting periods with explanation of significant changes. This will provide valuable insight into the operations and results of the company occurring between the reporting periods.

Use of Web Sites to Disclose Financial Information

CFA Institute Centre will be submitting a comment letter to the SEC in response to their proposed interpretive release to provide guidance regarding the use of company Web sites under the Exchange Act and accordingly, you should read that letter in conjunction with this response. As a general principle, we strongly support the use of electronic means to provide the investing

⁴ See *Apples to Apples: A Template for Reporting Quarterly Earnings* dated March 2007.



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public with timely relevant information. Given the increasingly global nature of the financial marketplace, the use of the internet to supply information is an efficient way to issue information timely to a broad audience.⁵

Please refer to our letter mentioned above for more detailed comments regarding these matters.

Closing Remarks

We commend NIRI for undertaking the initiative to develop guidelines for the content, format, and quality of information for quarterly earnings releases. We believe that these guidelines will serve as a “best practice” and improve both content and display of financial performance in earnings releases.

If you, other board members or your staff have questions or seek further elaboration of our views, please contact either Matthew Waldron, CPA , by phone at +1.434-951-5321, or by e-mail at matthew.waldron@cfainstitute.org, or Patrick Finnegan, CFA, by phone at +1.212.754.8350, or by e-mail at patrick.finnegan@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director

/s/ Gerald I. White

Gerald I. White, CFA
Chair, Corporate Disclosure Policy Council

cc: Corporate Disclosure Policy Council

⁵ See August 1, 2008 comment letter from Kurt N. Schacht, CFA and Thomas H. Larsen, CFA to David Blaszkowsky of the SEC Interactive Data to Improve Financial Reporting (File No. S&-11-08).