



Setting the global standard for investment professionals

November 30, 2011

Mr. Hans Hoogervoost
Chair
International Accounting Standard Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Re: Comment Letter on IFRS Agenda Consultation

Dear Mr. Hoogervoost,

CFA Institute¹, in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment on the International Accounting Standards Board’s (“IASB’s” or “Board’s”) International Financial Reporting Standards (IFRS) *Agenda Consultation 2011* (the “Agenda Consultation”).

CFA Institute is comprised of more than 100,000 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 the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

¹ With offices in Charlottesville, VA, New York, Hong Kong, Brussels and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 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.

EXECUTIVE SUMMARY

We welcome the opportunity to comment on the Agenda Consultation. We would concur that it is a useful undertaking for the IASB to define the forward agenda and to do so based on input from its stakeholders. This letter makes the following key points:

- The IASB should shorten the planning horizon and significantly improve its due process.
- The IASB should build institutional capacity to develop new IFRS and maintain existing IFRS and which should include two key aspects:
 - Development of the Conceptual Framework should be a top priority
 - The Disclosure Framework project should focus on enhancing the information content of financial statement rather than simply reducing the volume of disclosures.
- The Agenda Consultation does not provide sufficient basis for users to prioritise projects.
- Financial Statement Presentation, and related topics, should be reinstated as a priority project.

IASB Should Shorten the Planning Horizon and Significantly Improve Its Due Process

In our general comments, we observe that there is need to shorten the planning horizon to allow agenda flexibility given the various sources of uncertainty that are associated with a ten year planning horizon. We also recommend that the IASB develop and communicate its own preliminary view regarding its future agenda based on having a relatively superior understanding of issues around projects and related organizational constraints. Requesting stakeholders to make such analysis and trade-offs without complete information regarding projects and organizational capacity restraints is not likely to produce optimal results. We also note that due process improvements are required so as to ensure the possible benefits of future agenda priorities or projects are understood and evaluated as project modifications or priority trade-offs are made over the anticipated planning horizon. Additionally, we would like to emphasize that evidence-based standard setting should be an explicit agenda criterion.

IASB Should Build Institutional Capacity to Develop New IFRS and Maintain Existing IFRS

In responding to the specific questions set forth in the Agenda Consultation, we contend that a strategic choice between either developing new IFRS or maintaining existing IFRS should not be required, as both are integral elements of the viability of IFRS as a global set of accounting standards and the IASB as the related standard-setting body. Failure to continue to sufficiently fulfill the development or maintenance requirements of IFRS would significantly reduce the quality of IFRS and the institutional relevance of the IASB. Rather than making a flawed choice, the focus of the IASB should be on building institutional capacity to both develop and maintain IFRS standards. We also note the following relative to the associated matters in the Agenda Consultation:

- 1) *Prioritization of Conceptual and Disclosure Frameworks* – We strongly agree with the prioritization of the conceptual and disclosure frameworks. We also believe that a sufficient case has been made for the development and enhancement of the existing conceptual framework. This has been done severally by all stakeholders over the years. In this vein, there should be avoidance of circular discussions on whether or not the conceptual framework should be developed.
- 2) *Establish Research Capacity* – We concur with the need for the establishment of an independent research capacity in order to develop IFRS on an evidence based approach and to explore the merits of other strategic financial reporting areas (e.g. enhanced business reporting).
- 3) *Execute Post-Implementation Reviews* – We also support the undertaking of post-implementation reviews, though such reviews should focus on evaluating the usefulness of issued standards to users rather than solely on preparer operationality concerns and the evaluation of degree of conformance to IASB internal due process document, as is currently being proposed in the Agenda Consultation.
- 4) *Focus on Interpretative & Implementation Issues* – Finally, we support the development of the organizational capabilities to provide the robust implementation guidance required to ensure the consistent implementation of IFRS within and across different countries that have adopted IFRS.

The Consultation Document Does not Provide Sufficient Basis for Users to Prioritize Projects

In reference to the feedback being sought regarding user and other stakeholder prioritization of the 23 specific identified projects, our overriding concern is that there is not sufficient information provided for users and other stakeholders to prioritize these projects. The consultation document only provides an abbreviated explanation as to why most of these projects are important. The consultation document does not comprehensively shed light on any of the following in respect of the listed projects:

- Identified conceptual shortcomings including pervasiveness and interdependence with other areas of reporting;
- Usability and operationality difficulties; and
- Timing and/or resourcing required for completion.

In addition to difficulties of prioritizing the identified projects, users would struggle to assess whether the list of projects is exhaustive. In effect, the feedback of priorities obtained from stakeholders through this current process is unlikely to be based on their sufficient knowledge of the relative merits of addressing each identified project or on the critical evaluation of other missing but important projects. Such a decision making process does not correspond with how an efficient business would make its time and resource allocation decisions. More information is required on the need for, possible outcomes of, and resource requirements associated with projects under consideration.

Financial Statement Presentation Project Should be Reinstated as a Priority Project

Regarding projects listed in the Agenda Consultations, we believe the importance of the Financial Statement Presentation Project for investors has been established based on considerable feedback and extensive elaboration from user representatives including CFA Institute, the Corporate Reporting Users Forum (“CRUF”) and European Federation of Financial Analyst Societies (“EFFAS”). Such feedback has been provided through comment letters, user based survey evidence and other forms of representation to the Board such as the Capital Markets Advisory Committee (“CMAC”) and user liaison meetings. The user benefits have also been enunciated by a wide range of academic evidence.

Given the importance of this project to investors, the significant standard-setting development effort incurred in the past on the Financial Statement Presentation Project should be harnessed and this particular project should be reinstated as a priority project. Similarly, we consider the closely related projects of other comprehensive income (OCI) and presentation and disclosure standards, as being sufficiently proven as important for investors. As such, these projects should be categorized as key priorities. For the remaining listed projects, we propose an approach of differentiating these as follows: a) projects deferred despite significant effort expended; b) projects that have broad applicability; and c) projects with specific scope. For projects that have had significant standard setter development effort in the past but been deferred, the IASB should elaborate on the reasons for deferral as well as outline the key conclusions or tentative models derived from the feedback solicited and subsequent Board deliberations held. For the projects that have broad applicability and specific scope, the IASB should put forward its understanding of the potential case for change. In addition, similar to the technical project consultations, the board should formulate a preliminary view that allows users and other stakeholders to respond to the proposed projects most effectively.

GENERAL COMMENTS

Shorten or Bifurcate Planning Horizon to Ensure Agenda Flexibility Given the Uncertainty Associated With Ten Year Horizon

The next decade is a fairly lengthy planning horizon given the numerous current external uncertainties. This raises the question of whether any agenda that is specified at this point can be flexible enough to incorporate the many highly unpredictable factors associated with such a long planning horizon. For this reason, it might be better to divide the planning horizon between short and long-term agenda requirements, so as to allow an agenda update that allows for future events such as potential U.S. adoption or incorporation of IFRS. For example, it might be better to plan for the next three years and allow the option of reformulating the agenda thereafter.

As borne out by the standard setting experience over the last decade, setting the agenda only plays a small part towards ultimately ensuring that the designated work-plan objectives are achieved. For example, the last ten years have shown how a volatile economic environment, alongside pressures from political and regulatory authorities, can end up influencing the standard setting agenda in a hitherto unanticipated fashion. The uncertainties of the next decade include the question of whether and how, a number of major world economies, such as the U.S., Japan and China, will adopt IFRS standards. For a ten year planning time frame, there are also a number of internal organisational constraining factors such as attrition of Board and staff members who have had significant involvement in key projects. These constraining factors have a bearing on the ability to complete pre-planned projects.

Still further, the Agenda Consultation does not set forth the resources required – in both amount or period of time required – for the various specific projects or the priorities articulated (e.g. post implementation reviews, conceptual framework, research, etc.) Without such information, it is difficult to establish an effective agenda or allow for capacity to address the unexpected. It is also difficult to measure the effectiveness of the Board in achieving its short-term and long-term objectives.

IASB Should Have Preliminary View on Its Future Agenda

We believe it would have been optimal for the IASB to have put forward a preliminary agenda proposal based on its understanding regarding the inadequacies of existing standards as well as superior knowledge regarding its internal constraining factors; and, thereafter, requested that stakeholders respond to such a preliminary agenda. Under the current consultative approach, there is the risk that stakeholders could end up providing input based only on what they consider to be burning issues within their operational context rather than by prioritising relative to the full universe of unresolved issues and consideration of the IASB's organizational capacity to complete projects. In other words, all stakeholders should ideally have been accorded the opportunity to make a prioritisation based on a more complete picture of what is amiss with existing accounting standards and what can be realistically addressed within the planning horizon. It is laudable for the IASB to seek input from stakeholders, but it should empower stakeholders to give more actionable input by educating them on the issues with regards to potential projects.

Due Process Improvement Required to Ensure Espoused Benefits of Established Agenda

As pointed out in the CFA Institute's comment letter³ to the IFRS Foundation on its Strategy Review, it is important for the IASB to pay attention to the efficacy of its due process as this has a significant bearing on the standard setting outcomes. One concern relates to minimising the occurrence of incomplete projects. As shown in Appendix C to the Agenda Consultation, there are a number of projects where significant standard setting development occurred but such projects have been deferred for reasons that are yet to be fully explained. The deferral seems to be due to concerns mainly about their acceptability to financial statement preparers or Board time constraints, as opposed to whether they would provide more useful information for investors. Examples of such projects include: a) financial statement presentation; b) financial instruments with characteristics of equity; c) contingent liabilities; and d) income taxes. Should these deferred topics reappear on the future agenda, their further development will likely entail duplicative consultation and there is also the discontinuity in staff resourcing. Hence, to ensure resource allocation efficiency, the existing due process should be improved so as to minimise project deferrals. In the event that a deferral is made, there should be accountability by the IASB to all stakeholders. The Board should communicate any change in the initial rationale used to justify the project, bearing in mind that the review of a decision to defer or drop a project is just as important as the review of whether to include a project in the agenda. In addition, the IASB should educate stakeholders on the criteria for reinstatement of each deferred project.

Evidence-Based Standard Setting should Be an Explicit Agenda Criteria

Appendix A of the Agenda Consultation outlines the IFRS Foundation objectives and IASB agenda criteria. What is missing within the agenda criteria is the explicit articulation of evidence based standard setting. The IASB should strive to articulate and integrate evidence of anticipated benefits and costs, as far as is available, when making the case for change of any accounting standard. Such evidence can enable a common understanding and evaluation by stakeholders of the relative net benefits of updating accounting standards.

³ CFA Institute Comment Letter on IFRS Foundation *Strategy Review* (July 25, 2011).

SPECIFIC COMMENTS

The two primary areas of commentary addressed in consultative document relate to the questions of:

- What should be the strategic priority for the Board related to its resource allocation decision? This question primarily seeks input of whether the predominant focus of the IASB should be on developing new or on maintaining existing IFRS
- What projects should be a priority? This question is made in reference to the list of 23 projects included in the Agenda Consultation.

Our specific comments made below are mapped to these two broad questions.

Developing New IFRS and Maintaining Existing IFRS Should Both Occur

One of the primary questions posed in the IFRS Agenda consultation is what the balance should be between developing IFRS standards and maintaining existing IFRS standards? However, we believe these two aspects are inextricably linked and are equally important towards ensuring the implementation of high quality standards. There should not be a choice between developing new IFRS and maintaining existing IFRS, as both these aspects are integral elements of the basis of existence of the IASB as an institution and for IFRS as a global set of accounting standards. The focus should be on building institutional capacity to address both activities rather than making a choice between them. Below we elaborate on several elements⁴ associated with developing new IFRS and maintaining existing IFRS.

Development of Conceptual and Disclosure Framework is Essential

The development of a conceptual framework should be a top priority, as it can address and mitigate key issues that are pervasive across all areas of financial reporting and where there is currently an incoherent or ill-defined approach as to why one method of accounting is selected over another. Examples include the most relevant measurement basis for financial assets and liabilities and whether and when to use other comprehensive income.

However, we are aware that standard-setters are often faced with a conundrum regarding the best time to focus on enhancing the conceptual framework. Although the development of the conceptual framework can potentially enable the consistent development of standards, if its development is not informed by the specificities of different areas of financial reporting, any such development can end up yielding a purely normative and theoretical conceptual framework. Having said that, the concern about a purely theoretical conceptual framework ought to have lessened over time due to the considerable development and deliberation across a number of key standards (e.g. insurance, revenue recognition, leases, financial instruments, consolidation, de-recognition, and post-employment obligations).

An interim approach that can inform the conceptual framework would be to immediately address identified cross-cutting issues. Such an approach should address cross-cutting issues drawing upon the considerable knowledge gleaned from deliberation across major projects (such as those listed above). The CDPC highlighted a full list of cross-cutting issues during both the 2010 and 2011 annual liaison meetings. Examples of cross-cutting issues highlighted include: the transfer of control notion; various measurement building blocks including expected value and discount rate; and the need to re-measure liabilities on a periodic basis.

⁴ The agenda consultation identifies three areas associated with the development of IFRS standards, namely:

- Addressing the conceptual framework including a disclosure and presentation framework;
- Researching strategic financial issues in financial reporting; and
- Completing standards level projects.

The agenda consultation document also identifies two areas of maintaining existing IFRS standards, namely:

- Completing post-implementation reviews; and
- Responding to implementation needs.

Enhancement of Information Content Should be Overarching Focus of Disclosure Framework

A commonly cited argument against providing more information through disclosures is that companies are already providing voluminous disclosures and that these disclosures are burdensome for users to read. Accordingly, some stakeholders consider reducing disclosure volume to be the focal point of disclosure reform. But the reality is that much of the volume represents uninformative boilerplate rather than decision-useful information. In our view, the overarching focus of improving disclosures should be on enhancing the following desirable attributes of disclosures: a) adequate information content (i.e. relevant and complete information); b) ease of access and parsimonious presentation; c) understandability; and d) comparability, rather than focusing solely on volume. Disclosure with these desired attributes will not be burdensome for investors.

Similarly, though we are supportive of the idea of developing a disclosure framework, we would be skeptical about the suitability of a single disclosure standard. Our reservation stems from the concern that this disclosure standard would be primarily driven by the objective of reducing the volume of disclosures, as opposed to aiming to enhance the information content and presentation effectiveness of disclosures. It is also difficult to fathom how a single standard can encapsulate the specificities of every key aspect of financial reporting in a manner that encourages consistent and comparable disclosure practices amongst reporting entities that have a similar business model. Most important, the needed disclosures for any particular standard depend on the recognition and measurement provisions of that standard,

Support the Establishment of Research Capacity

As noted in our IFRS Foundation Strategy Review comment letter response, we strongly support the establishment of a research capacity and the intention to improve interaction with the academic community. This should contribute to evidence based standard setting. The incorporation of evidence based upon archival data and other methodological approaches, such as behavioural/experimental evidence, can only enrich the ex-ante anticipation of consequences of financial reporting changes and will be consistent with the objective of evidence based standard setting. An added potential benefit of the research capacity could be creating a linkage between on-going standard setting initiatives and the longer term innovative reporting issues (e.g. enhanced business reporting). It is essential that this research capacity be seen as independent in its activities and findings.

Post-Implementation Review Should Focus on Usefulness of Standards To Investors

As articulated in our response to the IFRS Foundation Strategy Review, from our understanding of how the post-implementation review will be conducted, there seems to be a notable omission of investor input when evaluating the utility of information. It is not clear whether the usefulness of information is being considered as a parameter for evaluating standards in the proposed post-implementation review process as articulated in the Agenda Consultation. It would be a wasted opportunity if post implementation reviews are narrowly confined to assessing how the internal IASB due process objectives were met or how issuer implementation is occurring.

IASB Should Strengthen Capacity to Respond to Implementation Issues

As articulated in our IFRS Foundation Strategy Review letter, we support the strengthening of the organization capability of providing implementation guidance through a more robust International Financial Reporting Interpretations Committee (“IFRIC”). We agree with the objective of ensuring consistent application and providing adequate implementation guidance to facilitate consistent interpretation of the IFRS standards across and within countries that have adopted IFRS.

In addition, the IFRS Foundation Strategy Review document stated that the IASB will provide guidance on its standards that is consistent with a principles-based approach to standard-setting and that application

guidance and examples must be necessary to understand the principles. Correspondingly, the IASB should ensure that there are clearly defined and robust principles within respective standards.

Existing Priorities: Clarify Completion Timelines and Reinstate Financial Statement Presentation Project as a Priority Project

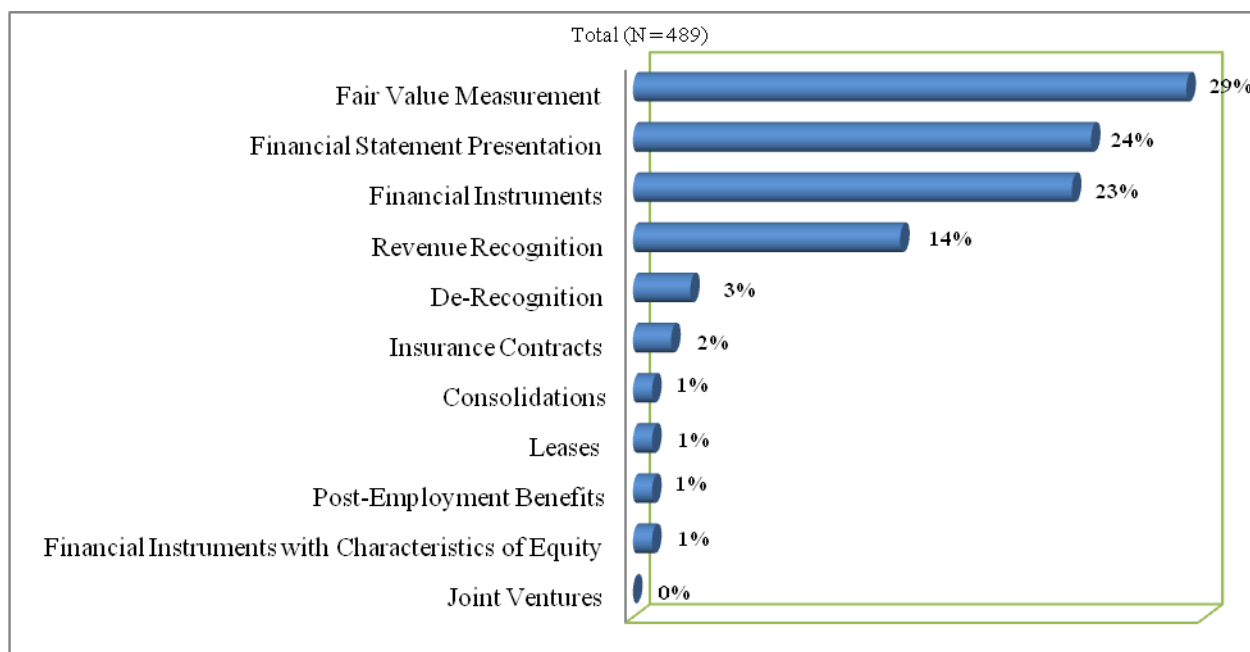
Page 13 of the Agenda Consultation outlines several existing priorities, including key Memorandum of Understanding projects (i.e. revenue recognition, leases, financial instruments and insurance), and other projects that the IASB is already committed or required to undertake, such as post-implementation reviews and the conceptual framework. However, missing from the Agenda Consultation are the likely timelines for completion of existing priorities and the envisaged dates for transitioning to new projects. Hence, there should be a clarification of the timelines for completing existing priorities and commencing new projects.

A notable omission from the priority list is the Financial Statement Presentation (FSP) project. The FSP project is simply listed as one of the 23 potential future projects. However, we believe the importance of this project to investors has been established by considerable feedback and extensive elaboration from user representatives, including CFA Institute, CRUF and EFFAS, and through comment letters and user based survey evidence as shown in **Figure 1** below. The importance has also been conveyed through other forms of representation to the Board such as the CMAC and user liaison meetings. The user benefits have also been supported by a wide range of academic evidence. Thus, the significant development effort already incurred on the Financial Statement Presentation project should be harnessed and this particular project should be reinstated as a priority project. When addressing the financial statement presentation project, the focus should be on providing at least the following four elements:

1. Sufficient disaggregation of main financial statements;
2. Roll-forwards of key balance sheet accounts;
3. Cohesiveness across financial statements; and
4. Direct cash flow statement.

Similarly, we consider the closely related key projects of other comprehensive income and presentation and disclosure standard projects, as being sufficiently proven as important for investors that these should accordingly be categorized as key priorities.

Figure 1: CFA Institute 2010 Survey on Memorandum of Understanding Projects



Potential New Projects: Insufficient Information to Prioritise Most of Identified Projects

In reference to most of 23 projects outlined in Appendix C to the Agenda Consultation, our overriding concern is that there isn't a sufficient basis for users and other stakeholders to prioritize these projects. The consultation document only provides an abbreviated explanation as to why most of these projects are important. The consultation document does not comprehensively shed light on any of the following aspects of the listed projects:

- Identified conceptual shortcomings including pervasiveness and interdependence with other areas of reporting;
- Usability and operability difficulties; and
- Timing and/or resourcing required for completion.

In addition to difficulties in prioritizing the identified projects, users would struggle to assess whether the list is exhaustive. In effect, the feedback on priorities obtained from stakeholders through this process is unlikely to be based on sufficient knowledge of the relative merits of addressing each identified project or on the critical evaluation of other missing but important projects. Such a decision-making process does not correspond with how an efficient business would make its time and resource allocation decisions. We would categorise the 23 projects into four key categories as follows and as shown in **Figure 2** and described below:

- Key projects with an established case for change for the benefit of investors that, as noted earlier, should be reinstated as existing priorities;
- Deferred projects where significant standard setter effort has been expended;
- Projects with broad applicability; and
- Projects with specific scope.

Figure 2: Categorization of Potential Projects

Key Projects For Investors	Deferred Projects	Projects With Broad Applicability	Projects With Specific Scope
<ul style="list-style-type: none"> ■ Financial Statement Presentation 	<ul style="list-style-type: none"> ■ Financial Instruments with Characteristics of Equity 	<ul style="list-style-type: none"> ■ Business Combinations Between Entities Under Common Control 	<ul style="list-style-type: none"> ■ Agriculture, Particularly Bearer Biological Assets
<ul style="list-style-type: none"> ■ Other Comprehensive Income 	<ul style="list-style-type: none"> ■ Income Taxes 	<ul style="list-style-type: none"> ■ Country-by-Country Reporting 	<ul style="list-style-type: none"> ■ Emissions Trading Schemes
<ul style="list-style-type: none"> ■ Presentation and Disclosure Standard 	<ul style="list-style-type: none"> ■ Liabilities – Amendment to IAS 37 	<ul style="list-style-type: none"> ■ Discount Rate 	<ul style="list-style-type: none"> ■ Extractive Activities
		<ul style="list-style-type: none"> ■ Earnings Per Share 	<ul style="list-style-type: none"> ■ Government Grants
		<ul style="list-style-type: none"> ■ Equity Method of Accounting 	<ul style="list-style-type: none"> ■ Islamic (Shariah-Compliant) Transactions & Instruments
		<ul style="list-style-type: none"> ■ Foreign Currency Translation 	<ul style="list-style-type: none"> ■ Rate-Regulated Activities
		<ul style="list-style-type: none"> ■ Inflation Accounting (Revisions to IAS 29) 	
		<ul style="list-style-type: none"> ■ Intangible Assets 	
		<ul style="list-style-type: none"> ■ Interim Reporting 	
		<ul style="list-style-type: none"> ■ Post-Employment Benefits (including pensions) 	
		<ul style="list-style-type: none"> ■ Share-Based Payment 	

For the remaining listed projects, namely: a) projects deferred despite significant effort expended (e.g. financial instruments with characteristics of equity); b) projects that have broad applicability; and c) projects with specific scope, there is need for enhanced information from the IASB. For projects that have had significant standard setter development effort in the past but have been deferred, the IASB should elaborate on the reasons for deferral as well as outline the key conclusions or tentative models derived from the feedback solicited and subsequent Board deliberations held. For example, for financial instruments with characteristics of equity there should be clarification on whether the basic ownership or ownership settlement approach would be the starting point for further development of a related standard.

For the projects that have broad applicability and specific scope, the IASB should put forward its understanding of the potential case for change. In addition, similar to the technical project consultations, the board should formulate a preliminary view to which users and other stakeholders can respond. Otherwise, it is difficult for users to have an informed opinion regarding the relative priorities. Hence, the IASB should go beyond simply providing a list of projects. The IASB should provide its preliminary view of the priorities across the projects listed, based on its view of the full range of deficiencies within existing IFRS. In effect, there should be an education process that facilitates meaningful contribution by users to the standard setting process. The education process should include the following in relation to prospective projects:

- Identified conceptual shortcomings with existing accounting practice, including pervasiveness and interdependence with other areas of reporting;
- Usability and operability difficulties; and
- Timing and/or resourcing required for completion.

Closing Remarks

We thank the IASB for the opportunity to express our views on the Agenda Consultation. If you, other members of the IASB, or your staff have questions or seek further elaboration of our views, please contact either Vincent. T. Papa by phone at +44.207.330.9521, or by e-mail at vincent.papa@cfainstitute.org, or Sandra J. Peters by phone at +1.212.754.8350, or by e-mail at sandra.peters@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht

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/s/ Gerald I. White

Gerald I. White, CFA
Chair
Corporate Disclosure Policy Council

cc: Corporate Disclosure Policy Council