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February 18, 2014

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

Re: Comment Letter on A Review of the Conceptual Framework for Financial Reporting: Presentation and Disclosure

Dear Mr. Hoogervorst,

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the International Accounting Standards Board's ("IASB" or the "Board") Discussion Paper, *A Review of the Conceptual Framework for Financial Reporting* ("Conceptual Framework DP"). As we note in our overview letter regarding the Conceptual Framework DP, we are responding to those aspects of the discussion paper where we think investor input may be most needed and where we believe improvements in the conceptual framework may have the most direct and immediate impact on financial reporting from an investor perspective. To increase the accessibility of our response to our membership, we have provided separate comment letters on the four topic areas of focus, which are as follows:

- Definition of Equity & Distinctions Between Liability & Equity
- Measurement
- Presentation & Disclosure
- Other Comprehensive Income

We have also provided comments related to Other Issues in Section 9 of the Conceptual Framework DP in our overview comment letter.

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[1] With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 118,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 142 countries, of whom more than 111,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 138 member societies in 60 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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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 trying to ensure that corporate financial reporting and disclosures provided to investors and other end users is of high quality.

OVERALL OBSERVATIONS

Commentary Based Upon Ability of Conceptual Framework DP to Address CFA Institute's Elements of Effective Financial Reporting for Investors

The approach that CFA Institute has taken in commenting on the Presentation and Disclosure Section of the Conceptual Framework DP (Section 7) is to compare the concepts in that section to those in two of our publications that articulate CFA Institute's elements of effective financial reporting and disclosure and that provide recommendations on improving financial reporting. They are as follows:

- *A Comprehensive Business Reporting Model* (CBRM):[3] CFA Institute's financial reporting policy positions were documented in this 2007 publication. It articulates 12 core principles that should govern financial reporting and 8 criteria for the development of effective and useful disclosures. Within this comment letter we compare and contrast the concepts on presentation and disclosure included in the Conceptual Framework DP with those in the CBRM.
- *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume*:[4] This 2012 report provides investor perspectives on what should be the disclosure reform priorities of standard-setters and provides recommendations to enhance financial reporting effectiveness. In the **Appendix** we compare, at a very high level, relevant aspects of the Conceptual Framework DP on presentation and disclosure to the recommendations we proposed in this report.

Below we provide some of our overall observations on the introductory paragraphs of Section 7 (Paragraphs 7.1 to 7.13) along with a summary of our specific comments which are discussed in the following section.

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3 CFA Institute, *A Comprehensive Business Reporting Model* (Charlottesville, VA: CFA Institute, 2007): www.cfapubs.org/toc/ccb/2007/2007/6.

4 Hereafter referred to as the Financial Reporting Disclosures Report.

Agree with Need to Address Presentation & Disclosure:
Disagree with Why It Needs to Be Addressed

CFA Institute supports the IASB's efforts to address and include presentation and disclosure concepts – not previously addressed – in the conceptual framework. Where we disagree is with respect to the reasoning for doing so and what the consequences of not addressing presentation and disclosure in the existing conceptual framework have been.

Per the Conceptual Framework DP the consequence of not including presentation and disclosure concepts in the existing conceptual framework has been: "disclosure requirements in IFRS that are … too voluminous." (Paragraph 7.2). It is hoped that the inclusion of principles in this area will address concerns raised by some regarding the need to consider costs and benefits of disclosures and reduce the burden on preparers.

We disagree with the notion that not including such principles has resulted in an excessive volume of disclosures under IFRS. As we articulate in our Financial Reporting Disclosures Report, we do not believe that financial reporting suffers from an excessive volume of disclosures. Rather, the findings documented in the Financial Reporting Disclosures Report illustrate that the need is for greater transparency and more entity-specific disclosures in place of uninformative boilerplate disclosures. We believe that efforts to reform disclosures should focus on increasing the quality and completeness of disclosures, not reducing disclosure volume.

The Conceptual Framework DP also discusses what the focus of disclosure reform should be in Paragraph 7.3. We take each in turn to highlight areas of agreement and disagreement.

- *Costs vs. Benefits: Need to Invoke an Investor Paradigm* – Paragraph 7.3 (a) and (b) address the need to consider the costs and benefits of providing disclosures. However, the discussion appears to be weighted in favor of reducing the costs to preparers of producing disclosure information. We believe there needs to be a change in mindset with greater emphasis placed on the benefits to users of having such information. Standard setters should acknowledge that it will often be the preparer who conducts any cost-benefit analysis, yet preparers will often be biased to focus on the costs and may not fully appreciate all the benefits. Furthermore, the costs are ultimately borne by owners and users.
- *Materiality: Where is All the Immaterial Information?* – Paragraph 7.3 (c) addresses materiality and the need to ensure only material information is disclosed. As we discuss in the section on materiality below, investors do not believe that financial statements include considerable amounts of immaterial information. There is no empirical research or evidence to illustrate or validate this assertion.
- *Communication Objectives: Investors Agree* – We agree with the need for clear communication objectives (Paragraph 7.3 (d)). Communicational enhancements, we believe, will go some way in increasing transparency.

Presentation vs. Disclosure: Consider Together or Separately?

Overall we note that presentation and disclosure have been addressed quite differently in the Conceptual Framework DP with the discussion on presentation being very basic. We wonder whether this is because there is a separate standard on presentation (IAS 1, *Presentation of Financial Statements*) but not a corresponding standard for disclosure.

We understand the IASB has undertaken an initiative on disclosures which will consider narrow scope amendments to IAS 1, a project to develop guidance or educational material on materiality, and a revised research project on financial statement presentation conducted in parallel with the conceptual framework that may ultimately lead to a replacement of IAS 1, IAS 7, *Statement of Cash Flows*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

We agree with the need to review both IAS 1 and IAS 7 (Paragraph 7.7). However, it is difficult to determine what aspects of presentation will be addressed in the conceptual framework versus the individual standards. In addition, we note that both standards address presentation but do not address disclosure. While IAS 8 is a standard on disclosures which is noted as under review, it is but one type of disclosure. Overall, it is not clear whether the contents of the Conceptual Framework DP will comprise all of the elements of disclosure which are considered important. It is, therefore, necessary for the Board to clarify where improvements to disclosures and disclosure requirements will take place – in a separate standard on disclosures, within the specific requirements contained in individual standards or in a disclosure framework. Without further clarification, it is difficult to comment on the totality of presentation and disclosure and challenging for investors to assess the impact any such changes will have on the presentation or disclosures they actually receive in financial statements.

CFA Institute agrees with the definition of presentation (Paragraphs 7.9 to 7.11). We do not, however, agree with the definition of the notes to the financial statements – to disclose information not presented in the primary financial statements (Paragraph 7.12). We maintain that presentation is the foundation of financial reporting, with disclosure being an explanation of the amounts presented in the financial statements. That is to say, the purpose of disclosure is to support the presentation not just provide information not included in the primary statements.

Accordingly, we believe that how information is presented is an issue that should be addressed before disclosure reform. During their review process, we urge the Board to incorporate recommendations 1-4 contained within our Financial Reporting Disclosures Report that address financial statement presentation. Improving disclosures without enhancing their foundation – the primary financial statements – will not substantially enhance financial reporting.

Further, we agree that the entity's own facts and circumstance should determine what information is presented in the primary financial statements and what information is disclosed (Paragraph 7.13). However, companies are not so unique that standardization of information cannot occur. Standardization of information for purposes of comparability is imperative for investors' analyses and can be facilitated with the use of technology, including XBRL.

A Summary of Our Specific Commentary

At a very high-level we find that the Conceptual Framework DP touches upon many of the concepts in the CBRM and recommendations of the Financial Reporting Disclosures Report. However, the Conceptual Framework DP isn't as comprehensive nor does it include the necessary level of specificity which we believe is necessary to bring about meaningful change. Consequently, as we touch upon above, we question whether the Conceptual Framework DP in its current form could resolve the presentation and disclosure issues identified by investors in the Financial Reporting Disclosures Report.

As we considered the specific requirements in each of the Paragraphs 7.14 to 7.52 of the Conceptual Framework DP we stepped back from the discussion and stratified elements of the presentation and disclosure section into those we fully supported, those we thought were in need of greater clarification and those we disagreed with or thought could be interpreted in a manner which was not helpful to investors. The results of our stratification are summarized below:

Aspects We Fully Support
▪ Offsetting is not the preferred method of presentation (Paragraph 7.29). ▪ Stresses need for comparative information (Paragraph 7.42). ▪ Promotes providing information beyond the requirements, if necessary (Paragraph 7.44 (b)). ▪ Promotes communication principles (Paragraph 7.49 – 7.50).
Aspects in Need of Further Clarification
▪ Objective and scope of footnotes (Paragraph 7.33 – 7.35) ▪ Forward-looking information (Paragraph 7.38 – 7.40). ▪ Types of disclosures (Paragraph 7.41). ▪ General disclosure objectives and specific requirements in individual standards (Paragraph 7.48). ▪ Technology and how it could be leveraged (Paragraph 7.51 – 7.52).
Aspects We Disagree With or Believe Could Be Interpreted in A Manner Not Helpful to Investors
▪ Information to be located outside the financial statements (Paragraph 7.19) ▪ Emphasis on aggregation over disaggregation (Paragraph 7.20 – 7.25 and 7.33 – 7.34). ▪ Preference for classification by function over nature of items (Paragraph 7.26). ▪ Lack of emphasis on cohesiveness within and among the financial statements (Paragraph 7.31). ▪ Notion of "recalculation" of amounts in the financial statements by users (Paragraph 7.36). ▪ Assumption that immaterial information is included in financial statements (Paragraphs 7.43 to 7.46). ▪ Statement that disclosures related to material items may not themselves be material (Paragraph 7.46 (d)).

Overall

Impact of the Proposed Changes – As we consider the proposals regarding presentation and disclosure in the Conceptual Framework DP it is unclear what impact the introduction of the presentation and disclosure section in the conceptual framework will have on the information investors and other users of financial statements obtain within the financial statements. Investors are keen to understand the linkage between these changes and the nature of financial reporting information they actually receive. We believe the Board needs to demonstrate the link between the proposed changes and presentation and disclosures investors receive.

Need for Investor Paradigm – To bring about meaningful change for the primary consumers of financial statements – investors – we believe the IASB needs to evaluate its proposed changes from the perspective of the investor as the primary user of the financial statements. Section 7 of the Conceptual Framework DP reflects, in our view, a preparer bias to the need for change in disclosures (Paragraphs 7.1 to 7.3). Further, the discussion of cost-benefit analysis appears tilted at times towards consideration of the costs to preparers over the informational needs of users. We think it is important for the Board to evaluate the paradigm being used to develop these proposals and ensure it reflects the needs of investors.

Focus on Presentation: It is the Foundation – Presentation being the foundation of financial reporting needs to be addressed before disclosures. In addition, the introduction of presentation in the conceptual framework does not eliminate the need for more substantive work on presentational issues. As we have considered Section 7 of the Conceptual Framework DP, we have found it challenging to discern what aspects of presentation will be included in the Conceptual Framework DP versus what aspects or improvements will be addressed in IAS 1 and IAS 7. Further, the differing treatment of disclosures from presentation in the Conceptual Framework DP raises the question regarding the need for a standard on disclosures similar to the existence of standards on presentation such that more specific guidance is provided on disclosures.

Because of the foundational nature of presentation we believe the Board should reinstate the Financial Statement Presentation project with a focus on the following four elements:

- disaggregation,
- cohesiveness,
- account balance roll-forwards, and
- direct cash flows.

We think it would be more appropriate to address disclosures after addressing presentation issues.

Need for Comprehensiveness & Specificity – The IASB needs to ensure that the Conceptual Framework DP is comprehensive, includes the necessary level of specificity to affect change and address any items noted above which might be misinterpreted. We think there is a need for greater specificity in order for the proposed changes to actually have a substantive impact on financial statement presentation and disclosures.

Need for Caution Against Misuse of Concepts – We observe that certain concepts in the Conceptual Framework DP, while reasonable on their face, could be misused to justify not providing necessary information for investment analysis purposes. We highlight several examples below.

- *Emphasis on Aggregation vs. Disaggregation (Paragraphs 7.20 to 7.25)* – We agree that the purpose of the primary statements is to provide information that is aggregated in a useful manner. However, the emphasis on aggregation over disaggregation may be taken by some to justify not providing investors with the necessary disaggregated information.
- *Use of Public Information Sources (Paragraph 7.19)* – While we recognize the financial statements cannot include all information about an entity, we are concerned with the wording in paragraph 7.19 that suggests the use of public information sources. This wording may be used later to justify excluding essential information from financial statements.
- *Flexibility of Presentation by Entity (Paragraph 7.27)* – Paragraph 7.27 notes an entity may determine what line items, subtotals and totals to present in its primary financial statements based on its individual facts and circumstances and its assessment of what is relevant at a summary level. While we are in favor of some flexibility there remains a need for standardization of information for purposes of comparability and the use of technology (i.e. XBRL) to capture, extract and compare information.
- *Flexibility in Application of the Concepts by the IASB (Paragraph 7.27, 7.28 and 7.40)* – Paragraph 7.28 states: "In some cases, the IASB may decide to require a particular item to be presented in the primary financial statements (assuming it is material to the entity)." Paragraph 7.29 provides flexibility to the Board in the application of the offsetting principles, and Paragraph 7.40 allows interpretation of what constitutes "forward-looking". These paragraphs substantively provide the Board with flexibility in the application of the concepts included in the conceptual framework. We think it is important that the IASB provide clarification as to when this flexibility might be utilized in its decision-making process as it provides a certain degree of override of the concepts for the Board.
- *Notion of Recalculation (Paragraph 7.36)* – We are concerned by that language in Paragraph 7.36, which indicates disclosures are not required to enable users to recalculate amounts in the primary statements, will be pointed to as a reason not to include disclosures which would be useful to investors. The language may also reduce a standard setter's ability to require information that would help diverse entities provide useful data. Such language should be excluded from any final conceptual framework as it suggests that investors must accept the definitions of net income, equity, and other metrics provided by financial statement preparers, who are free to introduce alternatives labeled "core" or "pro forma" that are more to their liking. But many investors prefer to make their own adjustments using footnote or other supplementary data. Such adjustments have been part of financial analysis for many decades. We cannot understand why financial reporting should limit the ability of investors to make their own estimates of key metrics used for valuation.

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SPECIFIC OBSERVATIONS

Below we considered the specific requirements in each of the Paragraphs 7.14 to 7.52 of the Conceptual Framework DP related to Presentation & Disclosure.

Presentation in Primary Financial Statements (Paragraphs 7.14 to 7.31)

Primary Financial Statements: Agree with Definition (Paragraphs 7.14 to 7.16)

We agree with the definition of the primary financial statements as stated in Paragraph 7.14, and while we agree with the notation that the financial statements should be summarized (Paragraph 7.15), we would suggest that it might be important to highlight that information should not be so summarized as to obscure the communication of important information to investors.

Objective of Primary Financial Statements: Needs to Be Expanded (Paragraphs 7.17 to 7.19)

The objective of the primary statements, as stated in the Conceptual Framework DP, is to provide summarized information about recognized items classified and aggregated in a manner useful to users. We believe that the objective is twofold and needs to be expanded accordingly. The purpose of the primary financial statements is to:

1. Provide investors and creditors with timely, relevant, complete, accurate, understandable, comparable, and consistent information in order for them to be able to evaluate the potential risk and return properties of securities and to determine appropriate valuations for those securities.[5]
2. Provide this information in a manner useful to users (i.e. classified and aggregated to offer decision-useful information.)

We also believe that financial statements need to provide a sufficiently comprehensive picture of the business. We are concerned by the wording in Paragraph 7.19 which suggests users should have to glean necessary information from public sources to make their capital allocation decisions. While we recognize the financial statements cannot include all information about an entity, we worry that the inclusion of such language in the conceptual framework may be used later to justify excluding essential information from financial statements. In other words, the language might raise questions, including boundary issues, around what constitutes a complete set of financial statements.

Classification & Aggregation (Paragraphs 7.20 to 7.28)

Disagree with Emphasis on Aggregation vs. Disaggregation (Paragraphs 7.20 to 7.25) – We agree that the purpose of the primary statements is to provide information that is aggregated in a useful manner but would stress that sufficient disaggregation is equally important. We are concerned with the comment in Paragraph 7.23 that the inclusion of insignificant detail may obscure information. We are concerned that the emphasis on aggregation over disaggregation may be taken by some as justification of not providing investors with the disaggregated information necessary for their analysis. We recommend that Conceptual Framework DP stress the importance of disaggregation as one of the objectives of the notes to the financial statements as we expand upon below.

Classification Should Be Based on Nature of Item (Paragraph 7.26) – We disagree with the proposal in the Conceptual Framework DP that classification and aggregation into line items

[5] Principle 1 of the CBRM states that the objective of the primary financial statements is to provide the information needed by equity investors, creditors, and other suppliers of risk capital to evaluate their investments.

should be based on the function of the item. Aggregation of disparate items by function results in information loss, and that loss reduces predictive power and analytical value. It has been our historical perspective that individual line items should be reported based upon the nature of the items rather than by the function for which they are used. The forecasting of individual line items for use in valuation and other decisions requires that they be relatively homogeneous – that is, represent a single economic attribute or an aggregation of very similar attributes. Categorization according to *nature* does exactly that.[6]

Flexibility of Presentation (Paragraphs 7.27 to 7.28) – The Conceptual Framework DP references flexibility in Paragraph 7.27 noting: "In many cases, an entity will determine what line items, subtotals and totals to present in its primary financial statements based on its individual facts and circumstances and its assessment of what is relevant at a summary level." As previously stated, while we are in favor of some flexibility there remains a need for standardization of information for purposes of comparability and the use of technology (i.e. XBRL) to capture, extract and compare information.

Paragraph 7.28 states: "In some cases, the IASB may decide to require a particular item to be presented in the primary financial statements (assuming it is material to the entity)." The IASB needs to provide clarification on the extent to which this paragraph will be utilized in its decision-making process as it provides somewhat of an override to the Board and as such is not a conceptual foundation.

Offsetting Should Not Be Permitted (Paragraphs 7.29 to 7.30)

We agree that offsetting should not be allowed as it does not provide useful information (Paragraph 7.29). Accounting standards that permit assets and related liabilities, revenues, and expenses, as well as investing and financing cash inflows and outflows, to be reported on a netted basis, cause much important information to be obscured or lost altogether. We do not believe that netting should be permitted for individual line items as the information loss can result in misleading analyses, distorted conclusions, and suboptimal investment decisions.

There is, however, a caveat in Paragraph 7.30 that in some circumstances the IASB may choose to require offsetting. It is unclear when such circumstances might arise and how often this override will be utilized. Further, we disagree with the notion that offsetting may be permitted to reduce costs for preparers.

Agree Relationships between the Statements Should Be Clear (Paragraphs 7.31)

We agree that the relationships between the statements should be clear as noted in Paragraph 7.31, but as we review the entirety of Section 7 we do not see the concept of cohesiveness sufficiently articulated. The concept is essential to the usefulness of the financial statements and we do not find the concept mentioned anywhere in the Conceptual Framework DP. As we articulated in our Financial Reporting Disclosures Report, this is an essential ingredient to financial reporting broadly and presentation specifically. We think the concept should be addressed and included in the Conceptual Framework DP.

6 Principle 11 of the CBRM.

Disclosure (Paragraphs 7.32 to 7.42)

<u>Objective & Scope of Notes to Financial Statements:</u>

<u>Improve Articulation of How They Work Together to Form the Notes (Paragraphs 7.33 to 7.35)</u>

We believe that the objective (Paragraphs 7.33 to 7.34) and the scope of the notes (Paragraphs 7.35 to 7.37), as written, are generic and broad. It is difficult to see that, as written, they will clarify what should be included in the notes to the financial statements and for what purpose. We believe the articulation of the objective and the scope of the notes and how they work together to define what the notes to the financial statements should include and what they are meant to communicate needs further refinement and detail.

The Conceptual Framework DP should first define the objective of disclosures (i.e. to provide investors with all of the additional information they need to place the financial statement numbers in their economic context). The Conceptual Framework DP should then state what this information, at a minimum, should enable investors to understand. The items listed in Paragraph 7.35 regarding the nature of disclosures should enable investors to fully understand:[7]

1. Manager's 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.
10. How the investor's event forecasts will affect forecasts of financial statement components.
11. The nature and extent of the entity's unrecognized assets and liabilities (including related risks) and why they are not recognized.[8]

We believe that the objective of the notes to the financial statements, as proposed in the Conceptual Framework DP, be further developed to incorporate the above.

[7] CBRM, page 41.

[8] We observe that disclosure on the nature and extent of risks arising from an entity's assets and liabilities would necessarily include considerable qualitative non-verifiable information that may be considered "forward looking" a concept which we discuss further later in this letter.

Measuring Management's Performance as An Explicit Disclosure Objective (Paragraph 7.33) – The list of items above does not incorporate what appears to be a key element of the objective of disclosures in the Conceptual Framework DP – namely that disclosures should be focused on providing information on how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. (Paragraph 7.33) This implies that disclosures should include stewardship as an explicit objective. As we articulate in our overview comment letter on the Conceptual Framework DP, investors are interested in how management discharged its responsibilities but this should not be an objective of presentation, measurement or disclosure as we are concerned it creates bias in the articulation of an entity's results. We believe the information should be sufficiently neutral, economically based and disaggregated such that investors and other users are able carry out their own assessment of management.

Need for Sufficient Disaggregation (Paragraphs 7.33 to 7.34) – To be useful to a wide spectrum of stakeholders, we agree that the financial statements need to be presented with a sufficient level of aggregation. Summary reports are useful to the extent that they provide an overall picture of the company's financial position. Any conclusions, however, an investor can draw based upon such highly aggregated information are necessarily conditional upon the investor's ability to gain a deeper understanding of the company's underlying economics.

This information must be obtained from the disaggregated disclosures in the footnotes. Such essential disclosures help investors to better evaluate the different financial statement elements and cash-generating processes that exist within a company. Hence, disclosures should provide sufficient disaggregated information for investors to be able to fully understand and interpret the summary information in the financial statements. [9]

We do not believe that this point has been explicitly or sufficiently articulated in the Conceptual Framework DP. Without such explicit articulation we believe that the emphasis on summarized information and aggregation could be used by some as a reason not to provide the necessary disaggregation.

Our Concern Regarding the Language Regarding Recalculation (Paragraph 7.36) – Finally, we are concerned by the language in Paragraph 7.36 which indicates disclosures are not required to enable users to recalculate amounts in the primary statements only identify key drivers. We are concerned this language will be utilized by or pointed to as a reason not to include disclosures which would be useful to investors. We believe such language should be excluded from any final conceptual framework as it is a concept which is not sufficiently defined.

[9] Principle 12 of the CBRM.

Forward Looking Information (Paragraphs 7.38 to 7.40)

Need for Forward-Looking Measurements & Disclosures – We agree with Paragraph 7.39 which states "if the measurement of an asset or liability is based on future cash flows, information about the methods, assumptions and judgments used to estimate those cash flows is needed in order to understand the reported measures." Investors seek forward-looking assessments of value and an understanding of how they were derived. CFA Institute has advocated for both forward-looking measurements and disclosures which make such measurements meaningful.

Broader Definition of Forward-Looking Information – Many do not recognize that current financial statements already incorporate a substantial amount of forward-looking information including forward-looking estimates. In some instances, the use of such estimates is obvious, such as amounts that are carried at fair value, particularly where fair value is based upon management's own estimates of the future. In other instances, the estimates are buried more deeply into the valuation process, embedded into the valuation of reserves, other types of provisions or in impairment assessments and write-downs, or even in depreciation methods. We, therefore, suggest that the IASB include a broad definition of forward-looking information in the conceptual framework to explain that financial statements already include many measurements and disclosures that meet the definition of forward-looking information.

Other Types of Forward-Looking Information – It is unclear as to what types of other forward-looking information the discussion in Paragraph 7.40 refers to and how this provision may be interpreted by the Board.

Types of Disclosures (Paragraph 7.41)

While this section touches upon some of the recommendations made in our Financial Reporting Disclosures Report, we do not believe it sufficiently or comprehensively addresses the detailed point we have raised, especially on the most troublesome disclosures investors encountered during the 2008 financial crisis (recommendations 11 – 17).

We think the items included in this section of the Conceptual Framework DP might be best included in and necessarily expanded upon in a separate standard on disclosures. We think further work is needed in this area to link disclosures with the nature of the underlying information and associated risks which need to be communicated to investors. Effective disclosures need primarily to:

- Communicate the judgments and estimates made in preparing the financial statements,
- Provide a clear and complete picture of economic assets and obligations not included in the financial statements, and
- Convey the risks associated with the business.

Comparative Information (Paragraph 7.44)

We agree with the inclusion within Paragraph 7.42 of the concept of comparative information.

Materiality (Paragraphs 7.43 to 7.46)

Agree With Going Beyond Disclosure Requirements, If Necessary

We agree with Paragraph 7.44. An entity need not address a specific disclosure requirement if the information is not material to investors. If circumstances warrant, however, entities should be compelled to provide disclosures that go beyond the requirements in the standards to meaningfully explain the economic substance of transactions or events. These concepts are in-line with recommendation 17 of our Financial Reporting Disclosures Report.

Investors Don't See Obvious Inclusion of Immaterial Information

Per the Conceptual Framework DP (Paragraph 7.46), how the concept of materiality is applied in practice is seen to have caused what some say is the current disclosure problem: financial statements are full of immaterial clutter that obscures key messages. We believe this conclusion is anecdotal rather than empirical and reflects a preparer rather than user perspective on this issue.

As discussed in the Financial Reporting Disclosures Report, while there have been many generalized claims regarding the inclusion of immaterial information in financial statements, we believe more precise research needs to be done to identify specific examples regarding inclusion of immaterial information and the basis for its inclusion so as to identify and address its causes. The results of our 2012 Disclosure Survey included in our Financial Reporting Disclosures Report suggest that the majority (76%) of respondents do not currently observe the inclusion of obviously immaterial information in the financial statements. More specific examples of the inclusion of immaterial information may facilitate reconciliation of differences in perspective.

No Such Thing as Too Much Useful Information

We agree with Paragraphs 7.46 (a) and (b). We are, however, concerned that Paragraph 7.46 (c) which states that the inclusion of immaterial information can impair understandability will be used to exclude information investors might find useful. While CFA Institute has never proposed that entities disclose immaterial information, it is equally important to recognize that for investors there is no such thing as too much *useful* information. Furthermore, standard setters need to acknowledge that preparers often make materiality judgments on behalf of investors, but as we demonstrate in our Financial Reporting Disclosures Report the preparer materiality threshold is generally higher than that of the investor.

Material Item vs. Material Information

We strongly disagree with Paragraph 7.46(d) that appears biased towards the views of preparers. The Conceptual Framework DP states that just because a line item presented in a primary financial statement is determined to be material, it does not automatically follow that the disclosures pertaining to that line item are material. It is unclear how to distinguish between a material item and the materiality of the information that pertains to that item. If an item is material enough to appear on the face of the financial statements, then it would seem essential that investors have the necessary information to understand the nature of the balance or amount presented on the face of the financial statements. Rarely would the financial statement caption be sufficiently descriptive to provide information on all the characteristics of the account balance. As such, we do not believe this is a concept which should be included in the conceptual framework.

CFA Institute

Form of Disclosure and Presentation Requirements (Paragraphs 7.47 to 7.52)
We question whether this section of the Conceptual Framework DP is about disclosure and presentation or just disclosures. It appears largely to be just disclosures. With respect to presentation, we believe more specificity is needed, which we believe can be achieved by incorporating the views contained in recommendations 1-10 of the Financial Reporting Disclosures Report (as we expound upon below). These relate to both presentation in the primary statements and presentational enhancements throughout the financial statements.

Agree With General Disclosure Objectives & Specific Requirements (Paragraph 7.48)
CFA Institute believes that the conceptual framework should promote the inclusion of general disclosure objectives as well as specific requirements in each standard. The inclusion of such objectives would help guide entities to identify the best disclosures to meet the objectives.

We, however, believe that the purpose of the disclosure objective should go beyond enabling an entity to determine whether the specified information would be material in the context of an entity's financial statements. The purpose of the objective should be to guide an entity to not only provide information required by the specific requirements but also information consistent with the spirit or substance of the requirements or the underlying nature/substance of the transaction.

Further, we believe standard-setters should consider the development of disclosures from the outset of the development of accounting standards because disclosures are the means by which the recognition and measurement decisions are communicated to investors. That is to say disclosures should not be an afterthought (recommendations 23-25 of our Financial Reporting Disclosures Report.)

Support Inclusion of Communication Principles: Need for Specificity (Paragraphs 7.49 to 7.50)
In line with the Conceptual Framework DP, CFA Institute believes that the disclosure guidance in standards should seek to promote communication as opposed to simply being a mechanism for compliance purposes. We, therefore, largely agree with the communication principles proposed in the Conceptual Framework DP. More specifically:

- *Entity Specific* – We agree that disclosures guidance should seek to promote financial reporting that is tailored to a company, that is entity specific and discourage boilerplate disclosures.
- *Clear & Balanced* – We agree disclosures should be clear and balanced. However, the focus should not be on containing or reducing the amount of information disclosed. With the increasing use of technology to analyze data, investors are not overly concerned with the length of financial reporting documents.
- *Highlight Matters of Importance* – We agree disclosure guidance should promote the presentation of information in a manner that highlights matters of importance during a particular reporting period. In addition, it should not permit highlighting a single number as being unique or exceptional when it is not done with the objective of communicating potentially misleading information.
- *Linked Disclosures* – We agree with increased cross-referencing of information but this should be required – not required or permitted – in order to demonstrate linkage between amounts in the financial statements.
- *Avoid Duplication* – We support elimination of duplication as long as the level of accuracy and audit assurance are not decreased because of the location of the information (e.g., including the information in the front of a registration statement instead of in the audited financial statements). Investors need to be told the same thing only once, but its location for the purpose of integration should not reduce its reliability.
- *Comparability* – We agree that disclosure guidance should promote comparability.

Furthermore, we urge the Board to incorporate Recommendations 5-10 of our Financial Reporting Disclosures Report to form a more comprehensive set of communication principles. In addition, we stress that a call for improved cohesiveness of balances within and among the basic financial statements and an increased use of roll-forwards of key balance sheet accounts be included in the communication principles.

Financial Statements in an Electronic Format (Paragraphs 7.51 to 7.52)

We agree with the need to highlight in the Conceptual Framework DP the importance of delivering financial statements in an electronic format. We also agree that while developing presentation and disclosure requirements, the IASB should consider the impact of technology and support advances in its application and wider use.

However, further clarification is needed as to how this concept would be applied. More specifically there needs to be a discussion as to how technology could be used to more effectively and efficiently deliver information needed by investors and reduce the costs involved in producing the information. When standard-setters perform cost-benefit analyses in their decision-making processes, they need to consider how technology can be leveraged to reduce the perceived costs of producing information. We think this notion needs to be incorporated into the discussion of this topic in the conceptual framework.

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Thank you again for the opportunity to comment on the Conceptual Framework DP. If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at mohini.singh@cfainstitute.org or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters
Sandra J. Peters CPA, CFA
Head, Financial Reporting Policy
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/s/ Ashwinpaul C. Sondhi
Ashwinpaul C. Sondhi
Chair
Corporate Disclosure Policy Council

cc: Corporate Disclosure Policy Council

Appendix

In the table below we compare relevant aspects of the Conceptual Framework DP on presentation and disclosure to the recommendations we proposed in the Financial Reporting Disclosures Report.

CFA Institute Recommendations	Remarks
Financial Statement Presentation	
1. Disaggregation	Emphasis in Conceptual Framework DP is on aggregation over disaggregation.
2. Direct method cash flow statement	Needs to be included as a fundamental concept. Will IAS 7 be revised?
3. Cohesiveness	Not included in the Conceptual Framework DP. Need to incorporate concept of cohesiveness.
4. Roll-forwards of key balance sheet accounts	Need for greater emphasis on roll-forwards rather than as one example type of disclosure.
Communication & Presentational Enhancements	
5. Integration	These concepts have been included in the communication principles articulated in the Conceptual Framework DP. However, there is a need for a greater level of specificity. This could be addressed in either the conceptual framework or a separate standard on disclosure.
6. Entity-specific information	
7. Emphasizing matters of importance	
8. Organizing & layering of information	
9. Simple language	
10. Tables and charts	
Most Troublesome Disclosures	
11. Estimates, judgments and choices	The section on *Types of Disclosures* (Paragraph 7.41) touches upon some of these recommendations. However, the section is not sufficiently comprehensive or detailed given the troublesome nature of these disclosures. We urge the Board to incorporate disclosures principles which address these items either in the conceptual framework or a separate standard on disclosures.
12. Risks	
13. Off-balance-sheet items	
14. Commitments and contingencies	
15. Intangible assets	
16. Going concern issues	
17. Go beyond requirements, if necessary	Agree with the inclusion of this point in the Conceptual Framework DP.
Considerations to Incorporate in Decisions to Improve Disclosures	
18. Materiality	The concept of materiality is included in the Conceptual Framework DP but it presumes the inclusion of immaterial information and appears preparer rather than investor focused.
19. Technology	Touched upon in Conceptual Framework DP briefly. Greater emphasis on the impact of technology on the ability to deliver information at a lower cost needs to be considered by the Board.
20. Costs and benefits	The discussion of costs vs. benefits appears to have a preparer bias in the Conceptual Framework DP
21. Behavioral elements	Communication principles are addressed in the Conceptual Framework DP. However, there is a need for a study on the impact of behavior on communication and hence disclosure.
Considerations Specific to the Development of a Disclosure Framework	
22. Focus on equity investors	Need to address who the main user is.
23. Include disclosure objectives	The continued need for disclosure objectives and maintaining individual standards is addressed in the Conceptual Framework DP.
24. Maintain specific disclosure standards	
25. Disclosures should be a focus, not afterthought in the development of standards	The concept of focusing on disclosures as standards are developed needs to be a concept which is incorporated into the Conceptual Framework DP.
26. Comprehensive information source	DP should not suggest the exclusion of potentially important information which can be identified from other public sources but may form an integral part of the financial statements.
27. Applicability (entities and reporting periods)	Currently the Conceptual Framework DP does not address the application of the principles to interim vs. annual periods nor the application of the principles to all types of reporting entities.