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Michael Prada
Chairman
IFRS Foundation
30 Canon Street
London EC4M 6XH
United Kingdom

Re: Comment Letter – Trustee's Review of Structure and Effectiveness: Issues for the Review

Dear Mr. Prada:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the *Trustees' Review of Structure and Effectiveness: Issues for the Review (Trustees' Review).*

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

GENERAL COMMENTS

CFA Institute has consistently supported the goal of a single-set of high-quality, understandable and enforceable financial reporting standards that would facilitate the comparison of investments in different countries. CFA Institute has supported International Financial Reporting Standards (IFRS) as a means of creating this single-set of high-quality financial reporting standards due to its organizational mission and global stakeholder involvement.

CFA Institute appreciates the opportunity to express its views on the IFRS Foundation (the Foundation) Trustees' Review. The Trustees' desire to seek the advice of the stakeholder community is in keeping with the spirit of transparency and demonstrates an understanding of the international stakeholder community interest as a part of the ongoing review. CFA Institute, as an organization comprised of analysts and professional investors, who are the primary users of financial statements, has an interest in

[1] With offices in Charlottesville, New York, Brussels, Hong Kong, Mumbai, Beijing and London, CFA Institute is a global, not-for-profit professional association of more than 130,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 150 countries, of whom nearly 123,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 144 member societies in 69 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.

the governance of the IFRS Foundation. In that spirit, we provide the specific comments which follow. In 2011 we provided comments to the *IFRS Foundation Status of Trustees' Strategy Review*. Several of the comments remain applicable as noted in our responses below.

RESPONSE TO SPECIFIC QUESTIONS

PRIMARY STRATEGIC GOAL 1: DEVELOPMENT OF A SINGLE SET OF STANDARDS

QUESTION 1 – ***What are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?***

CFA Institute has long supported one set of high-quality financial reporting standards that would make no distinction between standards used by public companies and private companies or based upon the size of the enterprise. Financial statements should serve the needs of all who provide capital to a company and bear risk as a result, including the various classes of creditors as well as equity owners. Our long-held view has been that one of the primary objectives of financial reporting and disclosure must be to provide all of the information that owners of the common equity require to evaluate their investments. When equity holders' information needs are met – given their status as residual interest holders in the enterprise – the information needs of all other providers of capital also will be satisfied.

QUESTION 2 – ***Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?***

We believe that the IASB should continue to co-operate with other corporate reporting efforts such as Integrated Reporting and other such bodies as we find investors seeking new and additional sources of information to evaluate businesses. We believe the Trustees should consider that the disclosure overload narrative common in the financial reporting community – but not driven by investor input – is inconsistent with the behavior currently exhibited by investors. If investors were overloaded with information we do not believe we would see them seeking additional sources of information such as environmental, social and governance, sustainability information, various non-GAAP/non-IFRS measures, and new means of cultivating unstructured data to inform their decision-making process. Such sources may provide more forward-looking insight into the business. While the financial reporting community seeks ways to mitigate inclusion of forward-looking information or the inclusion of uncertain measures, the investment community is looking elsewhere for decision-useful information. While some say that is an indication that financial statements are not being used by investors, others perceive them as a means of validating their previous forward-looking assumptions or being an anchor to management behavioral biases. In either case, we think it is essential for the Trustees to stay connected to these other initiatives as many have significant investor support.

We also believe, that given the prevalence of entities reporting non-GAAP measures, the IASB should monitor the use of these measures. Companies often supplement generally accepted accounting principles (GAAP) information with non-GAAP measures, which have been used for many years, to provide users with information they believe will put them in a better position to understand a company's performance, financial statements, or management's point of view. However, trends in the use of non-GAAP measures may also provide insight into improvements needed in IFRS.

QUESTION 3 – *Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?*

We believe that the Foundation should develop and maintain an IFRS taxonomy and that the technology should be maintained by others as proposed in the Trustees Review. We do not, however, believe the taxonomy is sufficiently deep to reduce extensions and increase the comparability of information. To be most useful to investors, the number of extensions must be minimized. Further, we continue to believe that to increase the usefulness of the taxonomy, it should be developed on the front-end of the standard-setting process as it nears completion, rather than after the standard has been issued.

In a recent speech, *Information For Investment Decision-Making: The Future In The Context Of The Past*, at the *XBRL US Investor's Forum: Improving Financial Analysis Through Structured Data* we provided our perspectives on the importance of structured data and tagging of data from the source not simply the end of the production process. We have been amongst the earliest supporters of increased use of digital technology (e.g. EDGAR) to improve the democratization of information to investors. As we note in our letter to the International Accounting Standards Board ("IASB") on its agenda consultation, we believe the financial statement presentation project should be a top priority for the IASB and that technological improvements must be incorporated into the thinking about how financial statements are created and delivered to investors. Our view is that tagging and structuring should begin with the capture of data – not simply the reporting of data.

QUESTION 4 – *How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?*

In the next several months we will be publishing our views on the use of technology in financial reporting. As we noted in the aforementioned speech – and in our 2013 publication *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust and Volume* – we note that the incorporation of technology into the decision-making process by policymakers has lagged behind and that the disclosure overload narrative has not incorporated the notion of how technology can be used to improve the creation and delivery of information to investors (See Page 26 of the aforementioned report). We also discuss this in our 2014 letter to the SEC related to its Disclosure Effectiveness Initiative.

We think a core competency of standard-setters must become an understanding regarding how technology is used or can be used in the financial reporting process. Thinking about financial statements based upon the number of pages in an annual report is, in our view, antiquated thinking. Much financial information is never printed. It is grabbed or snagged from data providers. In our view, standard-setters are simply the arbiters of much of the official data provided to investors and they need to understand how technology can be used to obtain and transmit data to investors. Further, the increased use of data analytics and business intelligence by companies for business decision-making highlights the increased availability of information. This should transfer to investors increased information for investment decision-making; however, when it comes to providing information to investors the common refrain and narrative is one of disclosure overload. In making cost-benefit decisions regarding disclosure, standard-setters must understand that technology is an essential element of the decision-making process and that they have the power to effectuate change through their decision-making. In our view, standard-setters' most important initial step should be to reframe their thinking and consider why – with technological advancements – more and better information cannot be provided. The paradigm should be one of why can't information be provided rather than considering additional information to be an element of, or additive to, a narrative of disclosure overload.

PRIMARY STRATEGIC GOALS 2 & 3: GLOBAL ADOPTION OF IFRS & CONSISTENCY OF APPLICATION AND IMPLEMENTATION

QUESTION 5 – ***Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?***

See above.

QUESTION 6 – ***What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?***

We support the goal of encouraging consistent application of IFRS as indicated in the Trustees Review. In our 2011 comment letter on the *IFRS Foundation Status of Trustees' Strategy Review* we comment on this issue in Question #6. Many of such thoughts remain applicable today.

We support the initiatives outlined in the Trustee Review including: clear, understandable and enforceable standards; co-operation with others; IFRS Interpretations Committee; education activities; post-implementation reviews; and transition resources groups. We are concerned, however, by recent efforts of the Revenue Recognition Transition Resource Group and the divergence which has emerged between IFRS and U.S. GAAP on several issues related to such an important standard. Investors need revenue to be defined consistently globally.

Our investor members note the inconsistent application of IFRS. Some use this as reason to oppose global adoption of IFRS. However, simultaneous with hearing about divergent applications of IFRS, we also hear from our investor members how the implementation of IFRS has enhanced the quality of financial reporting and transparency around the world as capital more readily flows between countries. We view this movement to a single-set of standards as a journey and that accounting, as a social science, is evolutionary. Not only do standards need to be consistent, those using the standards need to be trained and their understanding and ability to apply IFRS consistently developed. Much has been accomplished over the last 10-15 years in the evolution of IFRS.

That said, to continue improving the consistent application of IFRS, we believe it is important that the Trustees encourage evaluation across the globe of the adoption of IFRS. We suggest the Foundation periodically engage in surveys and other research to gather information on how IFRS is being applied in practice to highlight such differences, their reason for existing and what, if anything, the IASB can do to improve the implementation to be more consistent. Highlighting such differences doesn't diminish the utility of IFRS. Rather, it seeks to enhance stakeholders understanding and progress even more consistent adoption.

We also urge the Trustees to encourage global regulators (e.g. the stock exchanges, IOSCO, etc.) to develop and sustain a viable enforcement mechanism for IFRS. We believe that consistent application backed by a vigorous enforcement of the standards will significantly contribute to enhancing capital flows in certain markets and the adoption of IFRS in other markets.

PRIMARY STRATEGIC GOAL 4: IFRS FOUNDATION AS AN ORGANIZATION

QUESTION 7 – ***Do you have any suggestions as to how the functioning of the three tier structure of the governance of the Foundation might be improved?***

We believe the three tier structure of governance is still appropriate to ensure the effective independent functioning of the IASB. In our response to Questions #3 and #4 of the 2011 comment letter on the *IFRS Foundation Status of Trustees' Strategy Review* we provide more detailed thoughts on this structure.

However, we also believe that there should be more investor representation on all three of the bodies (Monitoring Group, IFRS Trustees and IASB). This increase in representation of investors is warranted and critical given that investors are the ultimate consumers of financial reporting information.

QUESTION 8 – ***What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of 'at large' Trustee appointments from two to five?***

We believe that the distribution of the Trustees broadly reflects the size of the capital markets throughout the globe. This all-inclusive regional representation is necessary to provide a platform for full due process and reception of views in standard-setting. We also encourage a re-assessment of the targets for geographical diversity should occur no less than every five years to ensure the targets adequately and fairly represent a broad base of international interests. The geographical representation should take into account the size of the financial markets and the use of IFRS in different regions as both will change over time.

We agree to accomplish this objective that increasing the "at large" Trustees from two to five is a reasonable proposal. This could help to ensure that a balance is struck to combat any pressures coming from regions for IFRS amendments, etc. At large representation should provide a global perspective for any changes.

QUESTION 9 – ***What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?***

Investors continually monitor markets, track economic developments and assess what information is needed to make informed investment decisions. Those who invest their wealth, or that of their clients, are constantly apprised of new developments including the appropriateness of available financial information. This means that investors can be an early-warning system for deficiencies in financial reporting and the need for revised accounting standards. For this reason, investors should be better represented on the IFRS Foundation Trustees and the IASB. This will enable investors to directly contribute to the deliberations of the bodies as they are being held rather than through indirect involvement with advisory committees. Also, greater investor membership would enhance confidence in the quality of the standards and the comprehensiveness of financial reporting.

QUESTION 10 – ***Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?***

We agree that the review of the strategy and effectiveness should be specified to start five years after the previous one has been finalized.

QUESTION 11 – ***Do you agree with the proposals to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution?***

We believe that it might be prudent to reduce the IASB from 16 to 13 members. But in doing so, the balance should be further weighted toward investor representation as noted in our response to Question 10. Should a decision to reduce the IASB be taken by the Trustees, we believe a strategic approach should be taken to execute that reduction. In other words, the reduction should not just be accomplished in accordance with current IASB member term expirations. This results in reduction by term, not by professional background. This approach has, and may continue to, disproportionately reduce the number of investor representatives on the Board.

We would also caution the Trustees from assigning geographic representation to Board members simply by country of origin or passport designation. We think the Board is best served by those who have global, in additional to regional, experiences. A Board comprised of members with single country experience is not necessarily a global body, but an amalgamation of regional perspectives. We think the Board should consider individuals who have had a breadth of experiences globally as their thinking may be more integrative, empathetic, and inclusive.

QUESTION 12 – ***Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB?***

We do not necessarily agree with the changes being proposed to Section 27 of the Constitution to include the notion of market and/or financial regulators in the balance of Board members. We need greater clarification with respect to who the Trustees believe are market and/or financial regulators. We have a strong view that prudential regulators (those which may be construed as financial regulators under such a definition) should not be members of the IASB as such regulators have a different mandate and can mandate the provision of information from companies. We would be concerned with the addition of such individuals to the IASB, as we do not think this is in-line with the purpose of financial reporting under IFRS. We do not think the provisions Section 25 which require "the best available combination of technical expertise and diversity of international business and market experience" should be eliminated. This seems sufficiently principles-based and an effective guiding principle.

QUESTION 13 – ***Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined above?***

We agree with the amendment to Section 31 of the Constitution allowing the Trustees to appoint Board members for a second term of up to five years rather than three. New Board members need time to familiarize themselves with the range of issues in front of the IASB and acclimate themselves to the stakeholder outreach process. This difference in tenure may also create flexibility in managing board turnover and transitions.

QUESTION 14 – ***Do you have any comments on the Foundation's funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?***

In our response to Question #7 of the 2011 comment letter on the *IFRS Foundation Status of Trustees' Strategy Review* we provided our thoughts on funding in greater detail.

We agree with the view that the IFRS Foundation's funding model should be: on a long-term basis (at least three to five years); publicly sponsored; flexible to permit the use of differing mechanisms and adjust to budgetary needs; shared among jurisdictions on the basis of an agreed formula; and provide sufficient organizational accountability.

We agree with the CFA Society United Kingdom who in their letter proposed the following alternative funding mechanisms:

> *An alternative source of funding that might be considered is that a fee should be paid by any company using IFRS that is required to produce audited financial statements, such that even publicly accountable private entities would contribute. This fee would need to be paid before an audit firm could issue its opinion on a set of accounts. The fee could be calculated as a percentage of the audit fee so that it was proportionate to the size and complexity of the organisation's business.*
>
> *Another alternative funding mechanism could be a levy on stock exchange dealing for those exchanges that require IFRS accounts for their listed companies. This would be similar to the Takeover Panel levy in the UK which generates around £7m of income each year. The Takeover Panel levy is payable by the purchaser and seller of securities and is collected by the intermediary that undertakes the trade. Note the UK's FRC is also largely funded by a levy on public companies.*

We believe some permanent, independent source should be developed to fund the operations of the Trustees and the IASB. As we note above, the development of IFRS has improved the quality of financial information in various markets and adequate sustainable funding should be ensured in all jurisdictions where IFRS financials are used to satisfy regulatory requirements. Adequate funding is essential to independent standard-setting and those countries or regulators accepting IFRS as a basis for the preparation of financial statements should contribute or mandate participation in funding the IFRS Foundation.

QUESTION 15 – ***Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?***

Nothing additional to note.

CLOSING REMARKS

We thank the Trustees for the opportunity to express our views on the *Trustees' Review of Structure and Effectiveness: Issues for the Review*. If you, other members of the Trustees or your staff have questions or seek further elaboration of our views, please contact either Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org, or Sandra J. Peters by phone at +1.212.754.8350, or by e-mail at sandra.peters@cfainstitute.org.

Sincerely,

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