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Olivier Boutellis-Taft
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RE: Interconnected Standard Setting for Corporate Reporting

Dear Mr. Boutellis-Taft:

CFA Institute[1]appreciates the opportunity to comment on Accountancy Europe's publication *Interconnected Standard Setting for Corporate Reporting* ("The Report"). We appreciate Accountancy Europe's leadership efforts on this important topic. CFA Institute is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the Corporate Disclosure Policy Council ("CDPC").[2]

Support Converged Standards: Facilitates Global Investment

As an organization comprised of global investment professionals, we have consistently supported high-quality global financial reporting standards. We supported the convergence of IFRS and US GAAP because we believed, and still believe, that a single common high-quality language for interpreting financial results is beneficial to investors. While companies report based upon their country of domicile, investors seek investment opportunities globally and a common language makes comparison, the life blood of investment analysis, much easier. In today's world, investors must be multi-lingual while companies are singularly

[1] CFA Institute is a global, not-for-profit professional association of nearly 171,400 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom more than 164,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 154-member societies in 77 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.

lingual reporting their results based upon accounting and reporting standards in their domiciliary or listed jurisdiction. Capital increasingly crosses borders and artificial constructs such as accounting or reporting by jurisdiction make the investing process more challenging.

Our view on the need for consistency and uniformity of information described in the report as "non-financial information" is no different. A solution that results in greater global convergence around such disclosures would be optimal for investors. We don't disagree with the nine principles. They are broad stroke principles of standard-setting. That said, we set forth below several considerations that come to mind as we review the Report[3].

Long-Term Value Creation & Integrated Reporting

The notion of a sustainable business model and long-term value creation is not something new to the CFA Program or CFA charterholders. These concepts are foundational to the fundamental valuation and investing we have promoted, trained investors to implement and advocated for information to accomplish, for over nearly the entirety of the last century – not simply because of the current emphasis on environmental, social and governance (ESG) and sustainability reporting.

We have supported the notion of Integrated Reporting (IR) and the efforts of the International Integrated Reporting Council (the IIRC or Council) over the last several years because we believe it provides a useful conceptual framework for considering the value creation process. As the IIRC considers how it will move forward in a world that is rightly considering how the plethora of reporting initiatives converge, we believe there are two valuable intangibles from the Integrated Reporting initiative. First, the framework is a very useful tool for considering how value is created. The challenge, in our view, the IIRC has faced is that it has not sufficiently bridged, or mapped, this value creation model to the existing reporting requirements to enable companies, investors and regulators broadly to understand how such framework can be deployed or embedded within the existing reporting regimes.[4] An additional challenge is that the IR framework does not provide sufficiently detailed guidance to result in the comparable, consistent and reliable data needed by investors. The framework is an important conceptual work that should be built upon in any effort to converge standards. Second, the meeting of the interested parties at the semi-annual IIRC meetings has been useful in creating a dialogue and increasing knowledge regarding the needs of stakeholders and the need for a uniform framework and consistent, globally applicable standards. This dialogue is important in bringing all stakeholders along in this journey toward a more converged solution as it relates to "non-financial information."

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[3] CFA Institute will also be responding to the European Union's consultation on the non-financial reporting directive. Please also refer to that comment letter when completed. It will be posted under comment letters on CFA Institute's website.

[4] This is especially the case in the United States, where even as the U.S. Securities and Exchange Commission disclosure requirements under Regulation S-K have been under review. The SEC has recently issued proposed rules to consider revisions to the Business, Risks, Management Discussion and Analysis and Selected Financial data. Our comment letters related to these proposals are available under comment letters on CFA Institute's website.

"Non-Financial Information" May Need Clarification or Rebranding

CFA Institute's history and success in training investment professionals is inextricably linked with the proliferation of information for investment decision-making that began after the 1929 stock market crash and the passage of the Securities Acts of 1933 and 1934 in the United States – and then expanded globally. The growth of the CFA Program and our global membership of investment professionals is visibly connected to the growth and transparency of information in markets as such markets grow and mature. We have spent nearly 70 years advocating for information that is decision-useful to investors. CFA Institute has devoted substantial resources over these many decades to developing thoughtful, informed views on financial reporting and seeking to continually represent the most comprehensive, thoughtful and informed views of the investor community on such issues.

Similarly, we have spent the last several decades focusing on the importance of governance and the related disclosures. Recently, there has been an increasing awareness and attention to the elements of environmental and social factors that have an impact on the financial value of a business – and as it relates to civil society and values-based objectives.
Integral to this evolution, however, is information and metrics that don't simply convey values or risk but demonstrate how such values or risk translate into measurements of financial value creation. As we observe the discussion of financial value vs. values, we perceive there is less of a recognition that such information and metrics should be measurable and quantifiable into value creation for investors.

We understand the origins of the term "non-financial information". However, as we observe the usage of the term "non-financial information" we are not convinced it best serves the convergence efforts being sought in the Report. To some, the term connotes an absence of linkage of such information to financial value creation and in doing so may not engage investors or regulators across the many jurisdictions in the manner that is necessary to reach a converged solution. For some, rather than being information not currently quantified and accounted for in financial statements, it is perceived as information of no financial consequence – only relevant for values or civil society objectives. In order to garner greater global support from investors this perception must be addressed. Those not bought in to the notion of "non-financial information" need to see there is a demonstrable link to financial performance and financial value creation from the provision of this information. The Report acknowledges, to a degree, this connection, but it needs to be more fully developed.

The term, in our view, can be a barrier to entry for some investors. We think this must be recognized and addressed to be overcome. Further, our approach even in financial reporting is that what gets measured and disclosed is what gets monitored by management and others. This is true with "non-financial information" as well, but the added step of demonstrating the linkage of the information to financial value creation is essential to investors globally accepting the need for such information and preparers agreeing to provide this information. Said differently, the information cannot only be qualitatively and intuitively valuable. As our experience has taught us, such qualitative disclosures become boilerplate. Without linkage to measurements that demonstrably connect to financial value creation they will not be widely adopted.

Reporting is Communication:
Know Your Audience (Investors) & Communication Objective (Financial Value Creation)
We have long said, that reporting of all types is communication and communication is a behavior of management. Central to effective communication is to “know your audience” and the “communication objective.” As we observe the current dialogue on ESG and sustainability disclosures, we believe there may be an attempt to meet the information needs of many stakeholders who have many different objectives through disclosure regimes meant to serve investors – not all stakeholders. (e.g. see discussion below regarding location of information). Further, there is a conflation of objectives at time. For example, information that supports values rather than financial value investing.

With a wide variety of audiences and communication objectives, convergence will always be more challenging – maybe impossible. For that reason, we believe the Report needs to clarify the audience and the communication objective before considering an oversight structure that seeks to integrate the audience and communication objective of financial reporting with that of “non-financial information.”

We do not support an integration approach that would confuse the notion that International Financial Reporting Standards and the International Accounting Standards Board (IASB) is meant to provide information to investors in making investing decisions. We worry that a separate board or an oversight function that conflates the information needs of all stakeholders with those of investors would be detrimental to the financial reporting ecosystem that is meant to serve investors.

That is not to say that stakeholders other than investors – or investors who invest based upon values alone – don’t have valid information desires or needs. Disclosures meant to advance specific values or civil society objectives may serve policy objectives or the values of those seeking to gain such disclosures, but such disclosures may not be directly correlated to the IFRS Foundation and IASB’s objective which is to provide information for investors. As such, creating an oversight body for the IASB with and International Non-Financial Standards Board (INSB) may be inconsistent as their principle audience and communication objectives are different. The impact could be a change to the conceptual framework for IFRS putting other stakeholders as the principle audience for financial reporting – an outcome we would not support. As such, it would appear that Approach 3, with a separate governance structure, might be more consistent with that objective than Approach 4, but we worry that even Approach 3 – with joint oversight by a monitoring board that may include those with different stakeholder objectives – may result in a conflation of audiences and objectives.

As we consider the proposed models, one thing which is not sufficiently clear is who will be the audience for the standards (both financial and non-financial) and will they be focused on investors or all stakeholders. We think this must be crystal clear. We cannot support an organizational structure or conceptual framework that conflates the information needs of investors with the information needs of a wider group of stakeholders.

Before moving forward, we think it is essential to consider who the information is prepared for and the objective of the information. We think it is important to be clear on what investors need and what is material to their investment decision-making process and then consider separately the information needs of other stakeholders (i.e. including investors who invest based upon values over value). That is not to say they are mutually exclusive, it is just to say that the discipline in thinking this through is essential.

The SASB's efforts have been disciplined in this distinction. The SASB standards have a precise articulation of the audience (investors) and objective of the standards – information that is financially material and relevant to all types of investors in making their investing decisions.

We worry that those seeking to promote values and policy objectives of various civil societies may dilute the appeal of a globally integrated corporate reporting framework. We believe a first step would be to focus on the needs over investors and build from there.

Location of Information Matters
The Report does not mention the location of "non-financial information" and where it will be reported. This is a very important question to be answered.

While in some countries all companies prepare accounts and annual reports, this is not the case in other jurisdictions. In other jurisdictions only publicly-listed companies must release information publicly. Given that some who support additional ESG and sustainability information for a variety of objectives (values and civil society) are pushing for the inclusion of such information in the annual reports of listed companies, this creates push-back from companies and regulators whose focus or objective is to provide information only financially value relevant to investors. They are averse to inclusion of such information in securities regulatory reporting requirements believing and asserting that it creates an unequal burden on publicly listed companies.

We worry that requiring publicly listed companies to provide disclosures that support values or civil society-based objectives – simply because they have a public reporting obligation to investors under securities laws may penalize publicly listed companies by placing that disclosure burden on them simply because of an existing public disclosure regime. They, however, should not have greater burden than other companies when it comes to values or civil society-based reporting objectives. This will have the impact of pushing more companies out of the public market.

Many believe that simply because a company has listed and accessed the public capital markets – and has publicly available information – does not mean they have a higher obligation to provide information that supports values or civil society-based objectives. Such dual objectives and the use of disclosure regimes for publicly listed companies to effectuate such disclosures and change will, in our view, slow support and adoption of such disclosures. For that reason, we believe the Report must distinguish obligations of reporting companies and the location of such disclosures based upon their existing reporting obligations as publicly listed companies.

Funding
As we look through the various alternatives, and the Report more broadly, we don't see any mention of how each of the alternatives might be funded. CFA Institute has spent significant time and effort outlining the elements of independent standard-setting. Top amongst these is the source of funding for the standard setters. As we consider all of the various reporting initiatives, we evaluate funding supporting such initiatives as this has a direct bearing on the standards development process. Over the years, we have considered this issue in the funding of the U.S. Financial Accounting Standards Board (FASB) and the IASB. In our view, before we could endorse a proposal we would need to understand how it would be funded.

Materiality
As we note above, we believe the audience and the location of the reported information drive the purpose of the reporting – and the definition of materiality. Without a clear articulation of the intended user of the information – materiality cannot be defined and refined. With investors as the primary focus, we believe the existing concept of financial materiality could be applied. We view the concept of "environmental and social materiality" as more an impact assessment than a materiality concept in the same vein as in the existing standard-setting context.

This is not to say that concepts of materiality that assess the impact of the company on the environment and vice versa are not important. It is simply to say, that investors and others in the financial reporting ecosystem do not have embedded in there thought processes additional notions of materiality. Additionally, many of those advocating for the inclusion of addition ESG and sustainability metrics have not been schooled in the notions of financial materiality and how it is applied in the construction of financial statements – and litigated in court proceedings.

As those long schooled in the concepts of materiality – and who have written extensively on the topic of materiality – we find an increasing number of stakeholders who are using the term materiality without an extensive understanding of the long history of this topic in the financial reporting space. We believe it is absolutely essential that this is clarified to be able to move forward. Mixed understanding and mixed messages on materiality are a barrier to moving the efforts included in the Report forward.

We note the Report does not address specifically the EU's concept of materiality, or dual materiality. The concept of materiality must be talked about clearly to move the efforts in the Report forward.

Where to Start: Investors
Having spent many years advocating for the convergence of accounting standards, we recognize that differing or competing objectives will deter convergence. For that reason, we believe, in developing an integrated and global approach for "non-financial information", it is essential to recognize that differing civil society and policy objectives in jurisdictions and differing values may deter progress on convergence. For that reason, we believe that any global approach is best commenced with the financial value creation objectives of investors – in this way jurisdictions don't dismiss the proposals based upon the objectives or audience of the information, or its location.

Again, this is not to say that the information needs of other stakeholders are not important. Investors, in fact, are not a monolith and want to invest, for themselves or for their clients, based upon these civil society and policy objectives. Rather, our point is that in commencing a convergence effort that connects to the existing efforts of the IASB and IFRS Foundation it is more likely to be successful to begin with agreement on the audience for the information (investors) and the communication objective (financial value creation). We believe a focus on investors with an objective of financial value creation could be a catalyst for convergence.

Subsequently layering on disclosures meant to meet the needs of other stakeholders with other objectives – and considering their location – will provide the needed differentiation and discipline necessary to garner support from all stakeholders to accept the disclosures necessary to meet multiple objectives. This ability to layer and distinguish financially value relevant information from values or civil society-based objectives is also very important to investors who want to make – or need to explain to their clients – trade-offs between investment decisions made based-upon financially value relevant information and those based upon values or civil society-based objectives. Professional investors, investing on behalf of others, will want to be able to make such distinctions to act in the best interest of their clients.

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Thank you again for the opportunity to comment on the Report. If you or your staff have questions or seek further elaboration of our views, please contact Sandy Peters by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

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Senior. Head, Global Financial Reporting Policy

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