Summary of CFA Institute Member Surveys
September 2010

The document is a supplement to the CFA Institute's Comment Letter (the "Comment Letter") to the Financial Accounting Standards Board ("FASB" or the "Board") Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "Proposed Update" or "Update") dated September 30, 2010 and provides a summary of relevant excerpts from CFA Institute surveys.

Background on Survey Approach & Methods

Our position in support of fair value has been premised on our mission and member views over a period of at least twenty years. As noted in the body of the Comment Letter our views regarding fair value were published in our 1993 publication, *Financial Reporting in the 1990s and Beyond*, and in our 2007 publication, *A Comprehensive Business Reporting Model ("CBRM")* [1]. Member support for fair value has increased over that time with the increased reporting and use of fair value measurements. The significant increase in our global membership has not altered our member support for fair value and the financial crisis did not diminish support for fair value. Set forth below are excerpts from our member surveys before, during and after the financial crisis. It should be noted that our surveys are completed routinely in the normal course of informing our opinions and are not completed to serve any clients or commercial interests. Our surveys do not hand-pick participants and our survey reports convey the survey methods including our unbiased sampling methodology, response rate, and demographics of participants as well as consideration of the statistical relevancy of our results.

We don't survey our full 100,000 membership on every topic as this would be burdensome to our members. We survey those who are most likely to have an interest in, or position on (either for or against), a topic so as not to inconvenience our members by surveying them on topics that are not relevant or of interest to them. Each member of the CFA Institute has a profile that is updated annually with a job classification and members are asked about areas of interest. Broadly speaking, on matters of financial reporting, we survey those who have the most relevant job descriptions (e.g. analyst, portfolio manager, etc.) and who have expressed an interest in financial reporting and financial statement analysis. We also have a more targeted financial reporting survey pool that is a subset of these individuals who have positively expressed interest in being contacted on all our financial reporting matters. So as to cast as broad, but as relevant, a net as possible on matters of interest such as fair value, our survey pool on most financial reporting matters is generally comprised of 15,000 to 20,000 members who are geographically representative of our membership, which is approximately 60% U.S. and 40% non-U.S. The response rate we received on the surveys below is statistically relevant and consistent with other surveys in both number of participants and response rate. As stated previously, our sampling methodology does not target a subset of individuals based on whether they support our views or perceived interests. Our interest/survey/commentary is entirely driven by our mission, member base and supported by our advisory committee.

Presented below are excerpts from our member surveys before, during and after the financial crisis.

September 2010 Survey

As discussed below, in November 2009 we conducted an extensive survey of our members on various issues associated with the measurement of financial instruments. That survey queried members to

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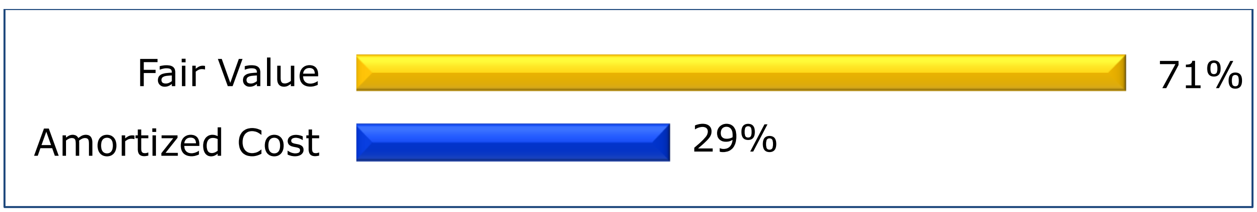
[1] *A Comprehensive Business Reporting Model*, CFA Institute, 2007. (http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2007.n6.4818)

ascertain their views relating to the appropriateness of fair value measurements across a variety of financial instruments (including loans and deposits), the most appropriate financial statement presentation and/or disclosure for such financial instruments, and the relative importance of the objectives of improving decision-usefulness, reducing complexity, or seeking a converged solution. Our results were similar to previous surveys in their support for fair value. Specifically, as it relates to loans, our members favored fair value over amortized cost by a 2:1 margin with 52% of respondents believing fair value was most appropriate while 26% of respondents believing amortized cost was appropriate and 22% of respondents being unsure.

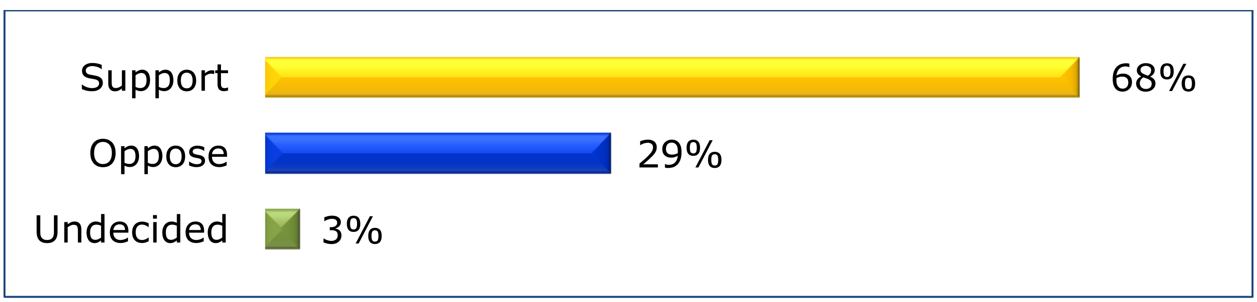
Given that much of the discussion regarding the Proposed Update has been focused on the singular issue of fair valuing loans, we felt it both timely and appropriate to check our members' views, once again, on this issue. In addition, we asked our members whether CFA Institute should support the Proposed Update's recommendations relating to accounting for loans. Our intention was simply to seek an "up or down vote" on the appropriateness of fair value measurement for loans and on whether CFA Institute should support the Proposed Update as it relates to the fair valuing of loans.

Using a sampling technique consistent with our previous survey, we asked our members to express their views in late September 2010. During the four business days the survey was open – compared to the two week survey period in November – the number of respondents nearly doubled from approximately 625 to 1,100. The following chart demonstrates support for fair value of loans increased from 52% to 71% while the support for amortized cost increased only slightly from 26% to 29%. Further, 68% of respondents indicated that CFA Institute should support the FASB proposal regarding measuring loans at fair value. These results – subsequent to the significant public debate on the fair valuing of loans – reaffirm that CFA Institute members continue in their strong support for fair value as the preferred measurement basis for loans. The questions and results from the survey are as follows:

What is the most transparent and relevant measurement approach to reflect the economic values of loan assets within the financial statements?



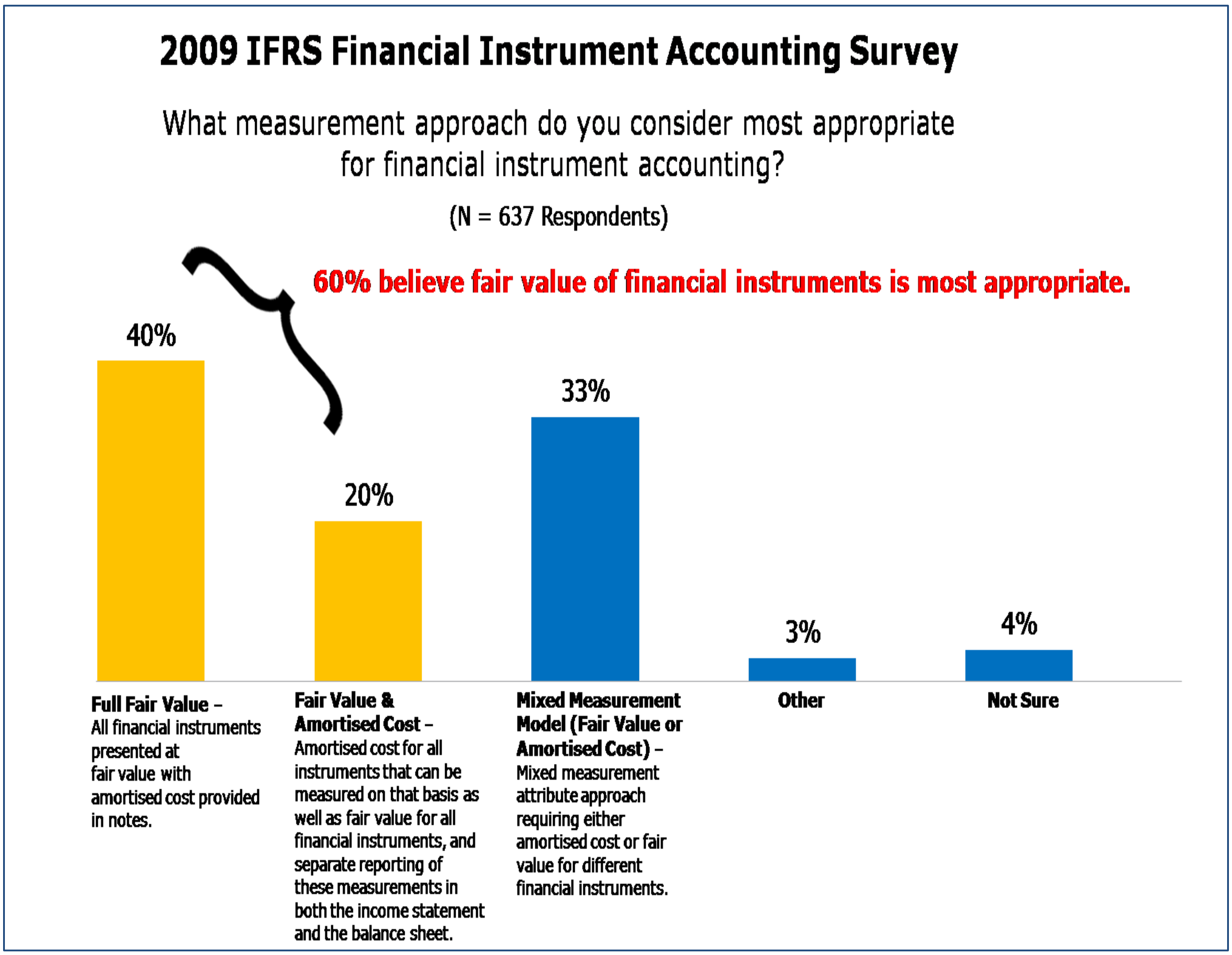
What stance should CFA Institute take on the FASB proposal to "fair value" loan assets and to reflect such values on the financial statements of the company?



November 2009 Survey

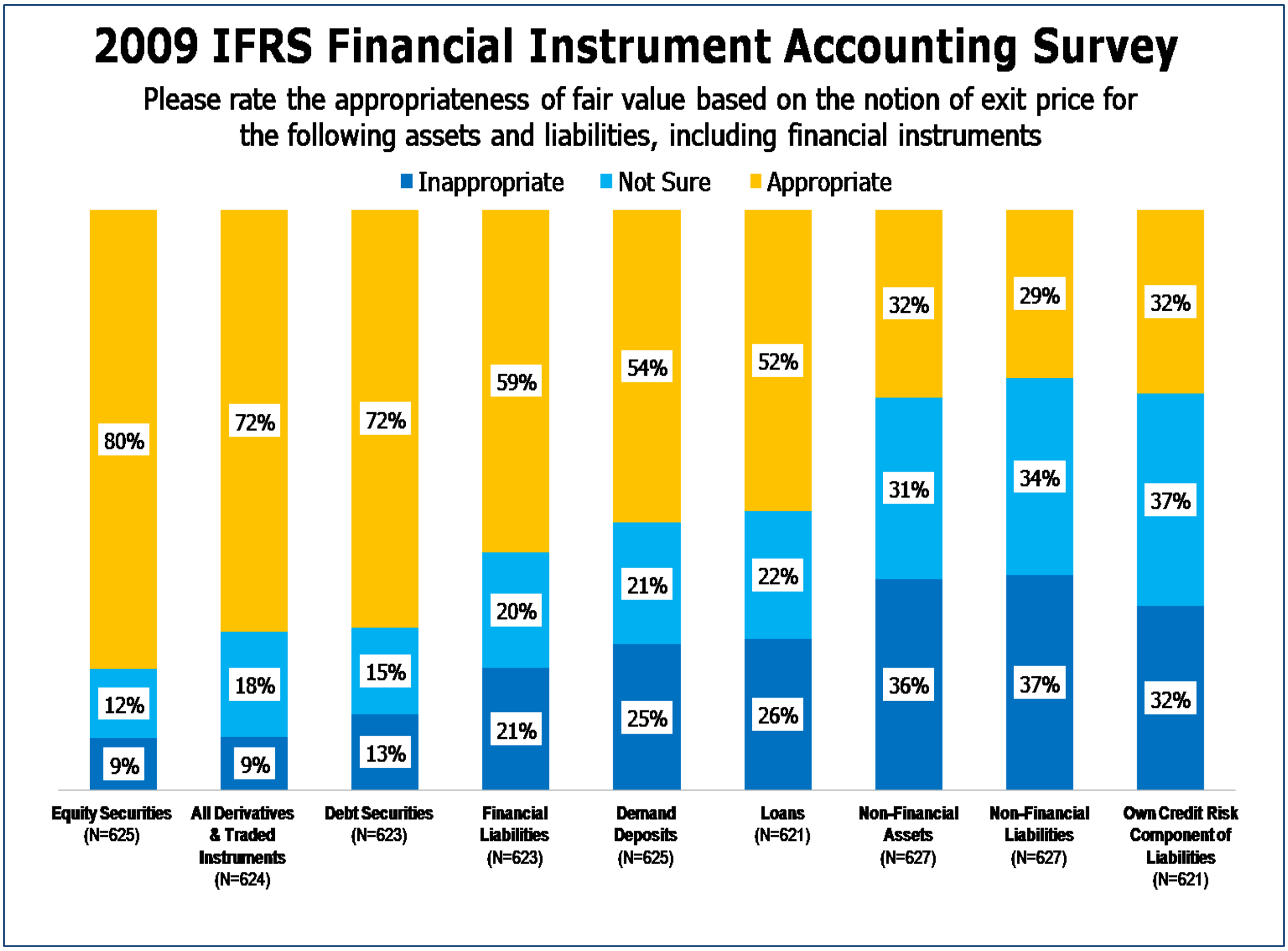
Measurement Approach for Financial Instruments

Our most recent detailed survey was conducted in November 2009, just subsequent to the issuance of International Financial Reporting Standards ("IFRS") 9: *Financial Instruments: Classification and Measurement*. This survey was sent to approximately 16,300 members. In addition to our normal survey group, we also sent the survey to participants in our IFRS 9 webcast and to a group of members who had self selected as having an interest in financial reporting topics. As a part of this survey, we asked a question similar to our pre-crisis question in 2007. 60% of our 637 member respondents supported either full fair value for all financial instruments or fair value with amortized cost presentation side-by-side for all financial instruments. 33% of respondents supported a mixed measurement approach with the remaining 7% not sure or desiring another measurement basis. Post-crisis, therefore, we found slightly higher support for fair value.



<u>Measurement Preferences for Assets & Liabilities</u>

In this same survey we also asked our participants to rate their preference for fair value by class of asset or liability. The survey results showed a significant majority (72 – 80%) of participants supported fair value for equity securities, derivatives, and debt securities. A majority of participants (52-59%) supported fair value for loans, demand deposits and financial liabilities. Only 21-26% of respondents indicate fair value for loans, deposits and financial liabilities were inappropriate. The ratio of appropriateness to inappropriateness was 2:1 in favor of fair value. Approximately 20% of the respondents were unsure or undecided on appropriateness of fair value; however, they did not state that amortized cost was more appropriate.



<u>Non-Financial Assets and Non-Financial Liabilities</u>

Survey results related to non-financial assets and non-financial liabilities were mixed, with one-third believing fair value was appropriate, one-third indicating fair value was inappropriate, and one-third uncertain as to the appropriate measure. The comments we received regarding the use of fair value for non-financial assets and liabilities are, we believe, reflective of greater uncertainty regarding the reliability of such fair value measures due to their limited availability in practice.

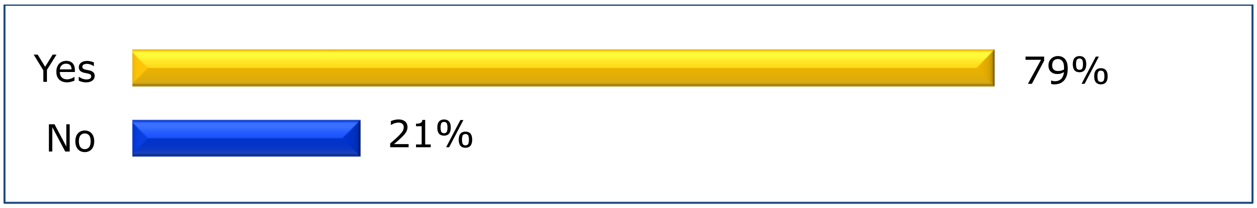
Own Credit
The survey results regarding own credit were similar to those for non-financial assets and liabilities, with one-third believing inclusion of own credit was appropriate, one-third indicating inclusion of own credit was inappropriate and one-third unsure regarding the inclusion of own credit. Based upon the comments received and the outreach we have done, this greater uncertainty stems from the need for greater education regarding the impact of own credit. Some perceive the inclusion of own-credit to be counterintuitive. Still others question the inclusion of own credit because they are not sure such gains and losses to equity holders can be crystallized. Finally, some users of financial statements do not recognize the accounting mismatch currently existing within financial statements with certain financial assets measured at fair value and financial liabilities recognized at amortized cost. We believe that with greater education and use of fair value for financial liabilities the benefits of the information content received from this measure will gain greater understanding and wider acceptance.

Conclusion
Overall, the survey results tell us that where fair value has been implemented over the last 15-20 years there is greater acceptance as to its appropriateness, relevance and reliability.

March 2008 Survey
As the financial crisis emerged in March 2008 we submitted a Question of the Month to our entire membership. 2,006 of our members responded and two key messages were received from our members.

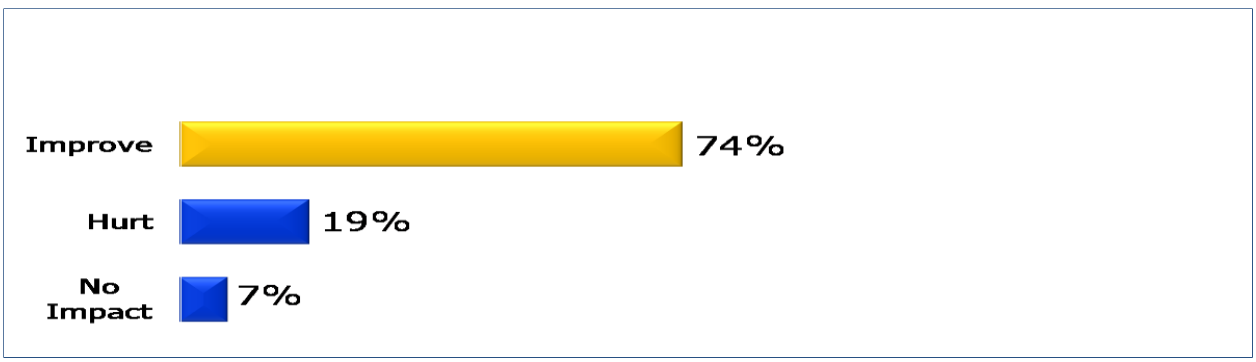
<u>*Fair Value & Transparency*</u>
First, when asked if fair value improved transparency and contributed to investor understanding of the risk profiles of financial institutions, 79% of respondents indicate that fair value improved transparency.

Do fair value requirements for financial institutions improve transparency and contribute to investor understanding of the risk profiles of these institutions?



<u>*Fair Value & Market Integrity*</u>
Second, we also asked our membership about the impact of fair value measurements on market integrity. 74% or respondents indicated that they improve market integrity.

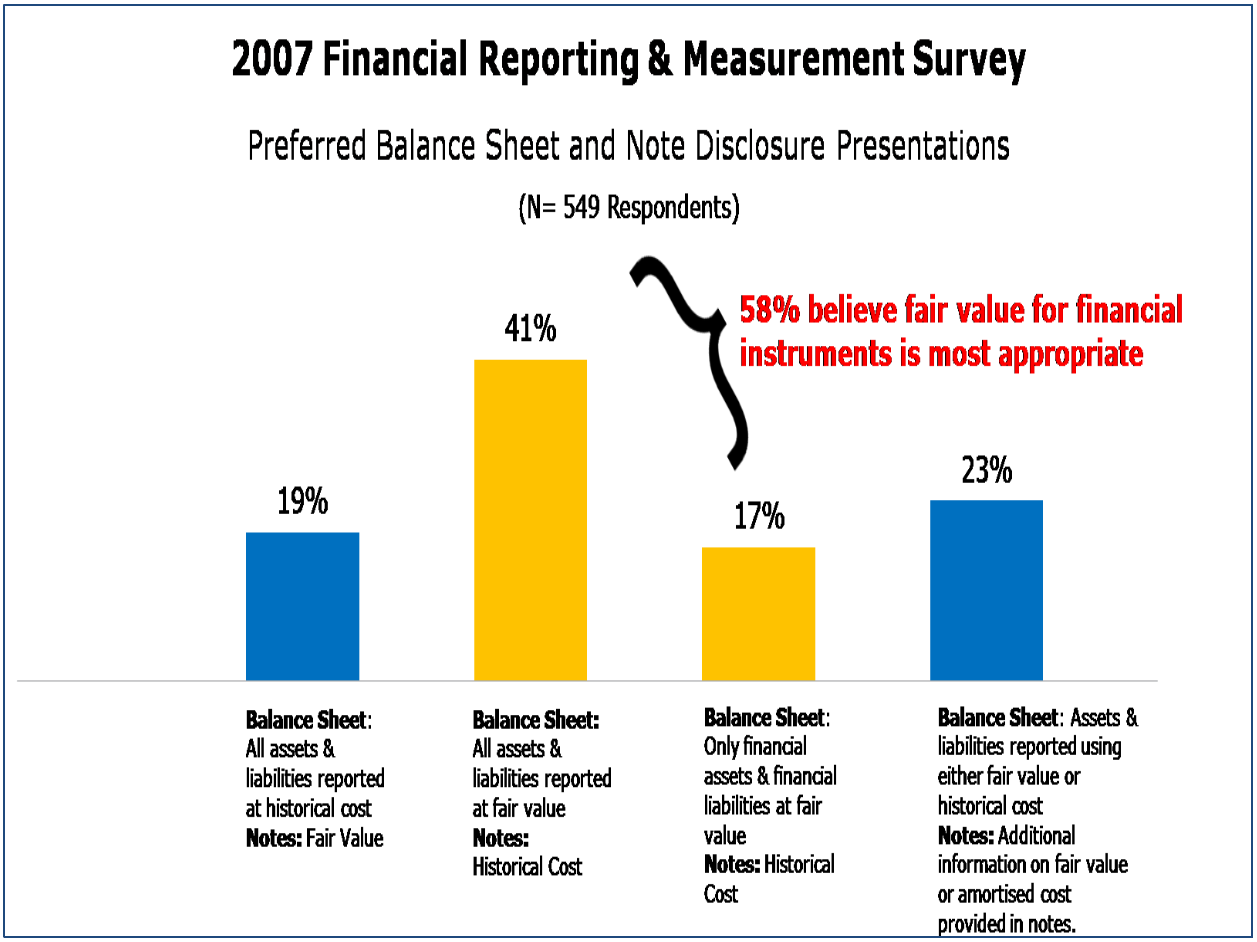
What is the overall impact of fair value requirements on market integrity?



July 2007 Survey

Balance Sheet and Note Disclosure Presentations

Prior to the financial crisis in July 2007 we asked approximately 7,300 of our members about balance sheet measurement and note disclosure preferences. 58% of our 549 respondents preferred fair value in the balance sheet for financial assets and liabilities with 41% of respondents indicating a preference for full fair value for all assets and liabilities. Only 23% preferred a mixed measurement attribute with fair value information in the notes and 19% preferred historical cost with fair value information in the notes.



Alternative Measurement Methods

As a part of this survey we also asked our members if companies should be permitted to choose among alternative methods for measuring and recognizing similar assets and liabilities. Alternatives were defined as the ability to choose fair value over amortized cost because of management intent or to invoke the fair value option. 72% of our members said choice of such alternatives should not be allowed.