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Olivier Taft
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Re: FEE Discussion Paper: Future of Corporate Reporting

Dear Mr. Taft,

The CFA Institute[1] appreciates the opportunity to comment on the Federation of European Accountants (FEE) discussion paper the Future of Corporate reporting.

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.

OUR RESPONSE

Our response revolves around the following themes:

- There is a need to coordinate with established initiatives;
- Investors ought to be always seen as the primary audience of corporate reports;
- There is a need to support initiatives that aim to enhance the quality of information; and
- There is a need for clarification on different aspects of FEE's central proposal (CORE and MORE framework)

Need to Coordinate with Established Initiatives

The corporate reporting reform space can feel quite crowded as there are many initiatives that have the same "big picture" intent of reforming current reporting but carry out this mandate with differing points of emphasis and differing features to their specific proposals. For example, as we understand, the International Integrated Reporting Council (IIRC) is focused on creating a greater connectivity between reporting components of which there will be a need for companies to think about a holistic, value creation focused communication of financial and non-financial information. IIRC also aims to create integrated thinking within companies. On the other hand, the FEE discussion paper seems to be about primarily

[1] With offices in Charlottesville, New York, London, Brussels, Hong Kong, Mumbai, Beijing, 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.

fostering a reporting platform that allows customized access of required information by different stakeholders and the integration of information is expected to occur via the anticipated developments in, and companies' adoption of, enhanced technological capabilities of delivery of information.

Similarly, there are efforts by the accounting standard setters and securities regulators to improve digital reporting and structured data. In tandem, the FEE discussion paper proposes the CORE versus MORE framework (i.e. executive summary-level versus detail-level) of presenting information predicated on leveraging technological developments as a basis of enabling customized stakeholder access to different layers of information.

At one level, the FEE discussion paper is welcome as a diverse set of initiatives can impart distinctive perspectives and allow a consideration and competition of a broad set of ideas. Innovation is more likely to occur if many ideas are put on the table. That said, there is a risk that the multiple ideas being developed by different organizations may end up undermining the ability of investors and other stakeholders to meaningfully evaluate the merits of specific proposals. Stakeholders will inevitably have the following questions:

- Are there overlaps or intersection of ideas between any newly formed initiatives versus the more established, mainstream reporting reform initiatives? For example, this question exists in the context of efforts to develop structured and unstructured data and enhance the role of technology in financial reporting.

- What are the limitations or failings of the established reporting reform initiatives that are being addressed by the FEE discussion paper? The view that financial reporting is irretrievably broken or that it is increasingly irrelevant a contestable claim. There is also an implied view that broadened sources and types of information (e.g. non-financial information such as environmental, social and governance (ESG) information) lessen the relevance of and substitute investors' dependence on financial statement information. This is also unlikely to be true. (See Appendix for a summary of Investor Expectations of Information).

  Even with the noted limitations of financial statements such as balance sheets not fully reflecting intangible assets or the fact that many financial statement line items are not forward-looking in nature but instead are based on historical, past transaction information - these statements remain the core fabric of the capital markets information set that are applied in the fundamental analysis and valuation of companies. Financial statement line items are key inputs for earnings and cash-flow based valuation methodologies.

  Information that is outside financial statement is usually only incrementally informative for the valuation of companies when such information better contextualizes or enhances the prediction of financial statement line items. Hence, additional sources and types of information complement financial statement information in telling the value creation story of companies. Most non-financial and key performance metrics have financial implications.

In general, the ideas within FEE discussion paper seem to have leapt ahead of many existing corporate reform efforts. That being said, it remains challenging to precisely discern whether the ideas proposed will fix what is broken within the current reporting; whether FEE proposals will not be subject to the limitations of multiple efforts by established accounting standard setters and the IIRC. What will be the mechanisms of enacting these proposals?

It is also not very clear where there are overlaps, whether there are philosophical differences in how to enhance the external reporting framework (i.e. emphasis on communicating insightful, connected information versus emphasis on empowering different users to access and construct their view of an entity's performance or any other matter of interest).

On the latter point, we would note that companies have a fiduciary duty and accountability to its providers of capital and this necessitates the communication of periodic performance, liquidity, and financial position. This objective should not be commingled with the objective of providing information that is of interest to multiple audiences. It is inappropriate to equate a primary audience of investors alongside multiple interested parties, growing or not, with a 'new need' to consider investors' information needs as just one amongst any another set of needs.

We recommend the following:

- *Align with established initiatives*: Being anchored to existing initiatives may sound like being counter to the spirit of innovation. However, an increased coordination with or a merger of FEE's ideas with those being considered by standard setters can ensure there is no duplication of efforts and enable stakeholders to remain engaged rather than confused or overwhelmed by multiple initiatives that all aim to improve corporate reporting. Better co-ordination also creates a critical mass in moving towards change.
- *Clarify how model overcomes typical acceptance obstacles*: A comprehensive gap analysis of existing corporate reform initiatives ought to precede the proposal of alternative or supplemental reporting frameworks. This gap analysis should consider and evaluate the existing process impediments to significantly enhancing existing reporting (e.g. political influence, vested interests, perceived legitimacy of proposing bodies, challenges eliciting evidence of a problem, effectiveness of engagement with investors and other stakeholders etc.) and thereafter outline ideas of how these impediments can be overcome. In other words, new proposals are most meaningful if also accompanied by a fully articulated change management strategy.

Audience for Corporate Reporting: Investors are Primary Users

The emphasis on a growing or changing demographic of corporate reporting audiences within the FEE discussion paper should not undermine the primacy of investors as users of financial statements. Corporate reporting information is integral to valuation, performance and risk analysis by investors. This information is at the very heart of valuation and/or capital allocation choices. On an ongoing basis, investors need robust financial and non-financial information that informs on long-term value creation. Investors are the most sophisticated users and analysts of corporate reporting information.

For almost any other audience, there isn't a similar need for an ongoing monitoring of all aspects of companies reporting information. Employees, customers, suppliers, governments and local communities could all be curious on the viability and social responsibility of companies, and on an ad-hoc, particular needs basis, they could review corporate reporting information but they do not rely on or analyze corporate reporting information to the extent that investors do. In addition, whatever is material to these other audiences, ought to be considered as material to investors. Conversely, other stakeholders can benefit from more transparent information being provided to equity investors who are the residual risk bearers.

We acknowledge that the growth in non-financial information may have widened the audience for corporate reporting going beyond investors, lenders and creditors. However, this should not result in a change in investor primacy nor should it lower the threshold of relevant information within external corporate reports regardless of platform. As noted earlier, companies have a fiduciary duty and accountability to its providers of capital and this necessitates the communication of periodic performance, liquidity, financial position, and risk exposures. This objective should not be commingled with the objective providing information that is of interest to multiple audiences. It will be inappropriate to equate multiple interested parties, whether these are growing or not, with the view that investors' information needs are just one amongst any many needs. Consequently, we recommend retaining investors' primacy within any proposed enhanced corporate reporting framework.

Need to Prioritize Enhancing Quality of Corporate Reporting

The FEE discussion paper has developed a framework for delivery of information. It also makes observations on standardization of information, expresses reservations or aligns with concerns about disclosure overload. However, the paper covers very little on improving the quality of information or seems neutral on the appropriateness of multiple initiatives.

In our opinion, any innovative framework, such as FEE's discussion paper, that aims to enhance external reporting ought to also develop views on how to improve the quality of information (i.e. predictive value, confirmatory value, materiality, comparability, and reliability). In other words, it is hard to have an enhanced reporting framework that is neutral to the underlying quality of information or on efforts being made to achieve higher quality information. Hence, there is a need to express views on current external reporting improvement priorities and how these priorities would be impacted if FEE's mooted reporting delivery framework was adopted. For instance,

- Investors expect the completion of the performance reporting project and an enhanced presentation of financial statements. Would the FEE proposed framework negate the emphasis that investors place on the priority of enhancing financial statement presentation?

- Investors would benefit from a degree of standardization of non-financial reporting and the need for such standardization is encapsulated in the efforts to enhance digital reporting including the application of XBRL. Furthermore, the Sustainability Accounting Standards Board (SASB) in the US aims to provide comparable, material, decision-useful metrics within sectors and investors find such enhancement to be necessary.

  It is not clear whether the FEE proposed and technologically- enabled delivery of information framework would facilitate or welcome any such efforts that aim to standardize information. The discussion paper seems to welcome both principles based and standardized information at a philosophical level. But it seems hard to have it both ways when aiming to present structured data with an increased dependence on technological platforms.

Clarification on the CORE versus MORE Framework

In principle, the idea of leveraging technology to enable tailored and more frequent access to company information by investors has some appeal as does the idea of having timely, aggregated and summarized information.

However, these concepts need further clarification and prototyping before investors can get a sense of whether they are a real enhancement from the existing periodic reporting framework. Investors need for comparable and reliable, periodic cross-sectional information told from the perspective of management- it is part of giving account and companies telling the story of their performance, liquidity, and financial position.

It is also not very clear what the specific practical elements of CORE and MORE are meant to be. The discussion paper highlights what could be eligible for a CORE versus MORE presentation. However, during the outreach to stakeholders, there seemed to be a diverse interpretation of the ingredients of these two layers and there is an obvious risk of parties communicating at cross-purposes and using similar terminology for fundamentally different concepts or element.

There are several questions and observations on the following aspects.

Integration and Connectedness

There is need for the FEE framework to comprehensively articulate responses to the following questions:

- How do the CORE and MORE components tie up with the IIRC efforts to create greater connectivity in corporate communication about long-term value creation?
- What will be the link between CORE and MORE information/data? Is CORE an aggregation of MORE? If so, how can CORE be timely and MORE not be?
- Is MORE information going to be analogous to a multi-user database?
- Will the underlying MORE information become more disparate?

It is necessary to ensure that the CORE and MORE information distinction does not lead to scattered information that constrains the analysis and masks insights on the long-term value creation possibilities of reporting companies.

It is worth emphasizing that the exponential growth of information sources does not necessarily equate to an enhanced and insightful communication of performance, liquidity, financial position and risk by companies. Hence, caution is needed in advocating frameworks that may further accentuate a disconnectedness of different information sets.

Assurance

The following questions arise:

- What will be the assurance levels across CORE versus MORE information?
- How frequently will audits occur?

Timeliness

The CORE versus MORE distinction seems to be in response to concerns about current reporting information not being timely. Will the CORE versus MORE distinction depend on reporting speed and is it predicated on the notion that corporates report very slowly as often suggested?

If one considers the confirmatory value of reporting information, then the idea of slow reporting may be overstated as a significant proportion of stock-market listed companies report unaudited results within two months following the end of the reporting period. This could be considered timely enough for annual reports that mainly have confirmatory value.

Overall, it is our view that a CORE versus MORE distinction should not primarily depend on differential speed in the reporting of underlying information. Hence, there is a need to clarify the relationship between the speed of reporting a particular information set and the categorization of information into CORE versus MORE.

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Thank you again for the opportunity to comment on the assessment paper. If you or your staff have questions or seek further elaboration of our views, please contact either Vincent Papa, Ph.D., CFA, CPA by phone at +44.207.330.9521, or by e-mail at vincent.papa@cfainstitute.org.

Sincerely,

/s/ Vincent Papa

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Richard Schreuder, CFA
Member
Corporate Disclosure Policy Council[2]

cc: Sandra Peters, CPA, CFA; Head Financial Reporting Policy
cc: Corporate Disclosure Policy Council

[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.

Appendix

Investor Views on Corporate Reporting Information

Standardized and Audited Financial Statements are Essential: Reliable, comparable and decision-useful information aids investment analysis. Within the corporate reporting framework, the audited financial statements including notes and enforcement of accounting standards are key elements. Audited financial statements are essential for effective corporate governance and stewardship.

Management's commentary in the corporate reports is also of great importance as it can contextualize the financial statement information. These discussions may well include non-financial information including ESG metrics. ESG information is certainly important and integral to the analysis of long-term value creation of companies. Nevertheless, management commentary should first and foremost focus on providing insight on a company's trading over the reported period, market developments, risks, progress of the business plan or strategy and the trading outlook.

Non-financial Information is Integral to Investment Analysis
As commented above, non-financial information including ESG is integral to investment analysis. For example, quantitative and qualitative non-financial measures can provide insights into the following:

- Innovation: management's and staff's willingness to innovate and embrace modern business practices;
- Customer satisfaction: Customer satisfaction, churn rate, and market share are all indicators of a company's future revenue generation potential.
- Environmental and/or safety track record: can inform on potential liabilities and reputational risk. A company's reputation can influence its trading prospects and cost of capital.

Non-financial information has become a bigger part of corporate reporting. And, given that such information may well help to improve investment decisions, this development is welcome. Increasing emphasis on material ESG criteria, concerns about executive compensation and other governance issues the recent financial crisis most likely imply that this trend continues.

That being said, companies need to prioritize and mainly communicate material and comparable information that sheds light on the long-term risks and value creation possibilities.