23 December 2015

IASB
30 Cannon Street
London EC4M 6XH
commentletters@ifrs.org

Response to 2015 Agenda Consultation (August 2015)

The CFA Society of the UK (CFA UK) represents about 11,000 investment professionals working across the financial sector including asset managers, buy-side analysts, sell-side analysts and credit rating analysts, among others. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee. The FRAC welcomes the opportunity to respond to the IASB's agenda consultation again, though unlike our 2011 response, this time we have not answered every question in detail.

As in 2011, the main area that CFA UK members identify as being in need of improvement is financial statement presentation and performance reporting. We realise this is high on your agenda and look forward to progress being made. We continue to believe that the draft Financial Statement Presentation (FSP) standard had much to commend it. We would welcome the Board reviving the FSP project and taking this forward to a conclusion.

In this context, it is worth bearing in mind that investors and analysts rely on both the financial and the narrative section of corporate reporting in order to assess a company's operating and non-operating performance. This assessment forms the basis of some of the principal tasks performed by the investment community: a) projection of future cash flows and assessment of the probability distribution, or risk, relating to these forecasts, b) scrutiny of management's stewardship and c) the suitability of securities issued by a company to an investment portfolio. Revenue, profit and cash flow items as well as assets and liabilities in and of themselves do not support the performance of any of these tasks; investors and analysts need to understand the drivers behind the numbers.

Companies frequently provide additional disaggregation of line items or disclosure in the narrative sections of annual reports and other capital market communications. Analysts and investors may not always realize that many of these disclosures are voluntary. We appreciate that many of these disclosures are outside of the scope of IFRS. However, we would urge the IASB to consider the potential to enhance performance reporting within the financials section, notably with respect to the following:

- **Disaggregation of line items in the primary financials:** e.g. separate disclosure of the contribution of business lines and geographies to revenues, disclosure of standard line items (e.g. COGS, SG&A, R&D spend, other income for industrial companies) and components of non-operating performance, further division of line items into components (e.g. D&A charges, restructuring charges, share-based compensation – many companies already break out these items as part of their alternative performance measures). The contribution of M&A activity to financial statements could also be made clearer.

- **Disaggregation and extension of segment reporting:** Business activities with different dynamics (e.g. with respect to growth rates, market maturity, margin structure, cyclicality, risk/reward profile) should be reported as separate segments. We would support minimum disaggregation requirements for each segment (e.g. disclosure of COGS, R&D and SG&A spend).
- **Definition of operating profit:** We appreciate the inherent challenges, but do not regard the hurdles as insurmountable. We note that many companies voluntarily disclose operating profit and that operating margins play an important role in analysis and investment decisions.
- **Clear link between the cash flow statement and the P&L/balance sheet.** The cash flow statements of many companies would benefit from enhanced presentation. It is often not clear which components from which lines from the P&L and balance sheet flow through which lines in the cash flow statement. The "other" categories in the cash flow statement can be very large for some companies; more granularity on cash inflows and outflows would be much appreciated by the investment community. This is particularly true with respect to large cash items that may be spread over longer periods of time, e.g. cash-outs for restructuring charges and legal settlements, where it is often difficult to track how much of the total amount earmarked for these purposes has already been cashed out.
- **Financial KPIs applicable to all industries,** e.g. constant currency growth rates.

Because of the welter of new standards in recent years, prompted by attempted convergence with US GAAP and the response to the financial crisis, we believe the board's priority should now be to improve existing standards rather than develop any new ones. We believe that the Board should focus on implementation reviews and considering key problems with existing standards. We are supportive of the disclosure initiative and particularly welcome the way this is being used to identify targeted limited improvements which significantly enhance reporting. We hope that this model can be replicated in the future.

Yours sincerely,

Marietta Miemietz
Co-chair, Financial Reporting and Analysis Committee
CFA Society of the UK

Paul Lee
Co-chair, Financial Reporting and Analysis Committee
CFA Society of the UK

Will Goodhart,
Chief Executive
CFA Society of the UK

About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 140 countries, of which more than 90,000 hold the Chartered Financial Analyst (CFA) designation.