CFA INSTITUTE | Centre for Financial Market Integrity

International Financial Reporting Standards (IFRS) Financial Instrument Accounting Survey

CFA Institute Member Survey

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Contents

Table References

1. PREFACE

1.1 Purpose of Survey

This survey sought CFA Institute member feedback on IFRS 9, *Financial Instruments: Classification and Measurement* issued by the International Accounting Standards Board (IASB) in November 2009. It also sought feedback on member views on the objectives of financial instrument accounting reform and the extent of application of fair value (i.e. exit value) across different assets and liabilities including financial instruments.

The survey was administered after IFRS 9 was issued, during the two week period between November 16th and December 1st, 2009, The survey feedback is expected to be useful to both the IASB and the Financial Accounting Standards Board (FASB), as they continue to update their financial instrument accounting standards over the coming months, and possibly come up with a converged solution, as this has been described as a joint project.

1.2 Background

The focus on financial instrument accounting has been elevated during the credit crisis, as it significantly impacts the reported performance and risk exposure of both financial and non financial institutions. As part of its response to the financial crisis, the IASB undertook a three staged overhaul of IAS 39, *Financial Instruments: Recognition and Measurement*. This is expected to be completed within approximately one year. In November 2009, following on from its consultative due process that closed in September 2009, the IASB issued the first phase of IAS 39's replacement, IFRS 9, *Financial Instruments: Classification and Measurement*, for voluntary adoption by IFRS filers. Mandatory adoption will be required beginning 2013. Regarding the other two phases, the IASB issued an exposure draft on impairment in October 2009, and is expected to issue an exposure draft on hedge accounting in the first quarter of 2010. The FASB is expected to issue a single exposure draft in early 2010, covering all the key aspects of financial instrument accounting.

IFRS 9 classification and measurement approach amendments were guided by a raft of technical considerations, including the definition of a criterion of whether to apply fair value or amortised cost measurement to specific financial instruments. The qualifying requirements for amortised cost treatment are that:

- the business model where a financial instrument is held is managed on a contractual yield basis; and
- the underlying contractual cash flows of a financial instrument possess stable characteristics.

Financial instruments that are not eligible for amortised cost are measured at fair value, with gains and losses going through the net income statement. However, an exception is allowed for equity instruments as they can be accounted for at fair value through the other comprehensive income statement (OCI). The standard prohibits recycling from OCI to net income statements and eliminates the bifurcation requirements when accounting for embedded derivatives. It allows for reclassification should the business model change and retains the fair value option. The scope of amendments is limited to financial assets.

1.3 Methodology and Analysis

1.3.1 Response Rate

641 usable responses were obtained, for an overall response rate of 4%. Response rates varied among the different questions, ranging from 617 to 637. The respondent geographic profile was as follows: 55% from the Americas, 28% from Europe, Middle East, Africa (EMEA), and 14% from Asia Pacific (APAC). The occupational profile was: 25% research analysts, 23% portfolio managers, 12% corporate financial analysts and 19% accountants/auditors.

1.3.2 Questionnaire Design and Sampling Procedure

The survey questionnaire had eight key questions. The survey was sent to 16,297 members. This was made up of members with an expressed interest in financial reporting and of an occupational category that is likely[1] to be users of financial reporting information. It also included qualified[2] members who had indicated their willingness to be surveyed on financial reporting matters and those known to have an interest in the subject, for example through their recent participation in CFA Institute's IFRS 9 webcast, conducted in conjunction with IASB, on November 3rd 2009. Further sampling details are described in the Appendix (Page-29).

1.3.3 Analysis

The detailed results described on pages 9 to 29 consist of an analysis of the responses, including a disaggregated breakdown based on regional and occupational category responses. The survey also allowed members to provide elaborative comments, if desired. The comments were in support of the selected choices. However, for meaningful interpretation of these comments so as to make broader inference[3], it would be necessary to undertake an analysis of themes and possibly to seek further clarification from members. Such a study would be beyond the intended scope of the survey. Nevertheless, these comments were reviewed for any elements of feedback that might not have been captured by the categorical responses and are available on request.

1.3.4 Limitations of Survey

The response rate of 4% is low but comparable to similar surveys. In addition, the total of 641 responses compares very well with the level of outreach that both the IASB and FASB are typically able to muster in their stakeholder outreach efforts. It also compares well with previous CFA Institute financial reporting surveys (e.g. July 2009 Cash Flow Survey -541 responses, 2007 Corporate Disclosure Survey-916 responses, 2007 Financial Reporting Measurement-592 responses).

Another common concern about survey studies is that there may be self-selection risk. However, from a methodological standpoint there is no known reason why those who either support or do not support IFRS 9, would be more likely to respond. The survey pool is diversified across geographical regions and key occupation categories and this mitigates the risk of any bias in overall findings. Furthermore, the questions were designed to be neutral, without communication of any perceived advantages or disadvantages.

[1] Academic-Accounting, Accountant/Auditor, Actuary, Appraiser, Corporate Financial Analyst, Credit Analyst, Investment Banking Analyst, Portfolio Manager, Research Analyst, Treasurer
[2] Members who hold a professional accounting qualification
[3] Only a proportion of respondents provided comments

2 EXECUTIVE SUMMARY

The survey aimed to get feedback on four key areas namely:

- Objectives of financial instrument accounting reform;
- Overall evaluation of the new standard (IFRS 9 classification and measurement);
- Evaluation of specific elements of the IFRS 9 classification and measurement standard;
- Application of fair value (i.e. exit value) across different assets and liabilities.

Objectives of Financial Instrument Accounting Reform

We sought respondent evaluation on:

- The primary objectives of financial instrument accounting reporting reform, namely improving decision usefulness, reducing complexity and seeking a converged solution;
- How the IASB and FASB should go about seeking a converged solution;
- Whether convergence should remain a goal of financial reporting reform.

The overall feedback indicates that ***while respondents believe it is necessary to pursue multiple objectives, improving decision usefulness of financial instrument accounting information is the most important objective***. This is followed by reducing complexity and finally seeking convergence. The results also show that ***there is support for convergence remaining an objective*** of financial reporting reform and for the need of the IASB and FASB to work in a more coordinated fashion. The sum of these findings could signal that ***convergence should remain as an objective, but that it should only be pursued as a means to improving decision usefulness of financial instrument accounting*** information.

The specific feedback was as follows:

- Respondents who consider multiple objectives to be most important (60%) exceed those who only view a single objective as being the most important[4] (40%). Overall, 79%[5] of respondents believed improvement of decision-usefulness of financial instrument accounting to be *at least as* or *more important* a goal than reducing complexity and convergence. On a similar basis, 59% viewed reducing complexity and 41% viewed convergence as primary goals.
- Of the respondents who considered only a single objective to be most important (i.e. 40%), most (26%) considered improving decision-usefulness to be most important. This reveals a consistent prioritisation of

[4] Single objective 40%= 26%- Improving decision-usefulness +8%-reducing complexity+ 6%-Seeking a converged solution

[5] The survey question was framed to allow respondents to rank different goals as being equally important, if they considered so. Hence, for example, improving decision-usefulness (79 %) = % Improving decision-usefulness (26%)+% Improving decision-usefulness and reducing complexity (25%)+%Improving decision usefulness and convergence (9%)+% All three reasons are equally most important (19%). The same approach was used to derive 59% to reduce complexity and 41% to seek a converged solution.

improving decision-usefulness, regardless of whether respondents consider a single or multiple objectives as being most important.

- 85% of respondents either *strongly agree* or *agree* with convergence being an objective of financial reporting, while 5% *strongly disagree* or *agree* and 10% are *neutral*. On the premise that convergence is an objective, 59% prefer that both the IASB and FASB work in a synchronized fashion and offer a single accounting solution, while 21% prefer each Board to initially develop their optimal solution and to seek convergence thereafter. 13% are neutral about the means to convergence and 7% are not sure.

There is indication that the strength of support for convergence may be different across regions. A higher proportion (93%) of EMEA respondents, either *strongly agree* or *agree* with it is an objective of financial reporting reform. This is relative to the proportion (80%), holding a similar view in the Americas. Regarding both Boards issuing a single and synchronised solution, a higher proportion (68 %) of members in EMEA support such an approach relative to the proportion (54 %) in the Americas.

Overall Evaluation of the New Standard (IFRS 9: *Classification and Measurement*)

We sought to evaluate respondent feedback on:

- Whether the new standard improved decision usefulness and reduced complexity of financial instrument accounting;

- Their evaluation of the IASB standard, relative to the prospective FASB standard that would require most financial instruments to be measured at fair value on the balance sheet;

- What they consider as the most appropriate approach to improving financial instrument accounting.

The overall results show that, ***on balance, there is a perception of some improvement in the decision usefulness***. This is demonstrated by a higher proportion of respondents answering that the standard improves decision usefulness and reduces complexity, relative to those who think it does not. The results show that 47% of respondents think the standard improved decision-usefulness, while 22% think it did not and 31% are neutral. It also showed 37% think the model reduced complexity, while 28% think it did not and 35% are neutral. Therefore, there is ***no unanimous perception of improvement or effectiveness in reducing complexity*** by this new standard.

Another key conclusion is that there ***may be room for more to be done on financial instrument accounting, despite the incremental perceived improvements*** having been achieved through IFRS 9. IFRS 9 is premised on the mixed measurement attribute approach. When asked which measurement approach could best improve financial instrument accounting; only 33% of respondents selected the mixed measurement attribute of either fair value or amortised cost for financial instrument. On the other hand, 60% selected some variant of full fair value for financial instruments (i.e. 40% selected full fair value, with amortised cost in the notes, and 20% selected both amortised cost and full fair value in financial statements with separate presentation). A small minority[6] (6%) neither selected the mixed attribute nor any version that allows full fair value. From this finding, it can also be inferred that 53% prefer the retention of some form of amortised cost (i.e. the 33% who favour

[6] 2% selected other and 4% were not sure. From the elaborative comments, the definition of the 'other' option was not sufficiently defined

the mixed attribute and the 20% that selected both the presentation of both amortised cost and fair value). Either way, ***the results show that respondents would view the need for greater levels of fair value for all financial instruments than is achieved through a purely mixed measurement attribute approach***.

The conclusion of the support for greater level of fair value application for financial instruments is further backed by the marginally higher proportion of respondents who think the prospective FASB model is better (40%). This proportion exceeded those who think it is worse (31%) while 9% see no difference and 21% are not sure. The FASB model is understood as intending to have fair value for most financial instruments on the balance sheet.

The proportion of respondents who support the mixed attribute approach from the Americas is lower relative to those from EMEA and APAC. It is also lower among the corporate financial analysts, portfolio managers and research analysts, relative to the accountant/auditor segment of respondents. The preference for the prospective FASB model was consistent across key geographic regions. However, the preference is strongest from Americas and weakest from APAC. The preference is consistently higher among the more user oriented segment of respondents (i.e. the corporate financial analysts, portfolio managers and research analysts) relative to accountants/auditors who slightly seem to prefer the IASB model.

Evaluation of Specific Elements of the IFRS 9: *Classification and Measurement* Standard

We sought feedback on the specific elements of the IFRS classification and measurement standard. Respondents were asked to evaluate the appropriateness of each of these elements. Across all the elements, the proportion of respondents who think it is appropriate exceeded those who think it inappropriate. These findings appear to be ***consistent with overall perceived feedback of some degree of improvement, under the new standard***.

The feedback was as follows:

- Equity instruments through OCI (46% appropriate, 29% inappropriate, 25% not sure);
- Non bifurcation of embedded derivatives (40% appropriate, 15% inappropriate, 45% not sure);
- Prohibition of OCI recycling (55% appropriate, 12% inappropriate, 33% not sure);
- Allowing reclassification (51% appropriate, 23% inappropriate, 26% not sure); and
- Fair value option (77.6% appropriate, 8.9% inappropriate, 13.5% not sure).

The results also show that a third or more members are unsure of the appropriateness of prohibiting recycling and prohibiting the bifurcation of embedded derivatives. This is indicative of the need for greater understanding around these aspects.

On a regional basis, there was relatively stronger support for equity instruments being recorded through OCI in APAC, for allowing reclassification when the business model changes in APAC and EMEA, and for the non bifurcation of embedded derivatives in the Americas.

Application of Fair Value (i.e. Exit Value) across Different Assets and Liabilities

A key aspect of financial instrument accounting improvement is the extent of application of fair value measurement. We sought feedback on the appropriateness of fair value across different assets and liabilities. **The results show support for the application fair value across all categories except for non-financial assets and non-financial liabilities**. The overall feedback also indicates ***support for fair value across financial instruments***.

This is consistent with the finding that improvement could be achieved by applying fair value across all financial instruments.

Support fair value

- Equity securities (79.9% thought it appropriate, 8.6% inappropriate, 11.5% not sure)
- Debt securities (72% thought it appropriate, 13% inappropriate, 15% not sure)
- Loans (52% thought it appropriate, 26% inappropriate, 22% not sure)
- Derivatives and traded instrument (72.3% thought it appropriate, 9.3% inappropriate, 18.4% not sure)
- Financial liabilities (59% thought it appropriate, 21% inappropriate, 20% not sure)
- Demand deposits (54% thought it appropriate, 25% inappropriate, 21% not sure)

Non-support for fair value

- Non-financial assets (37% thought it inappropriate, 29% thought it appropriate, 31% not sure)
- Non-financial liabilities (36% thought it inappropriate, 33% thought it appropriate, 34% not sure)

Inconclusive feedback

- Own credit risk for liabilities (32% thought it inappropriate, 32% thought it appropriate, 37% not sure)

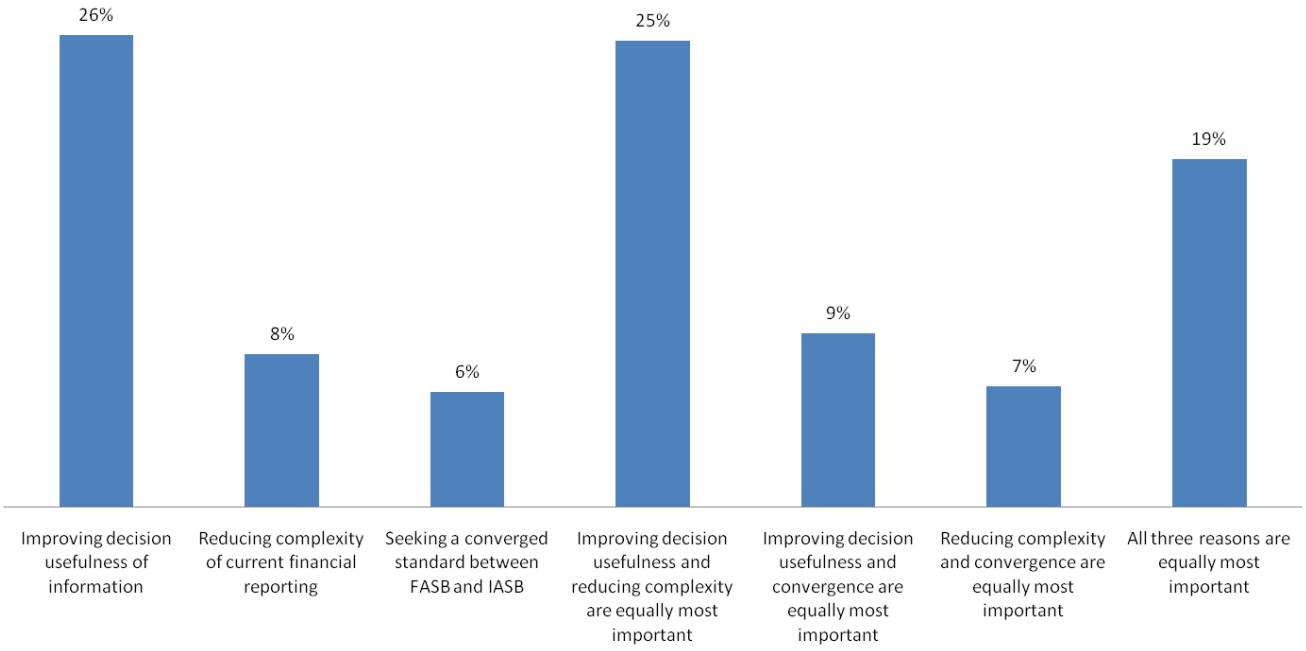
Furthermore, approximately a third or more members are unsure on the appropriateness of application of fair value for own credit risk for liabilities, non-financial assets and non-financial liabilities. This seems to be a reflection of the unresolved debates around these categories.

This executive summary has depicted the salient aspects of the aggregate feedback and highlighted the significant differences among the respondents, across key geographic and occupational sub-categories. In the detailed description of results (section 4), there is a breakdown of responses by geographical regions and occupational categories to further facilitate the analysis of any differences across groups.

3 DIAGRAMMATIC DEPICTION- AGGREGATE RESULTS

The diagrammatic depiction shown from pages, 9 to 16, illustrates the key findings of the survey. For each graph or chart the key message is included below. The detailed findings based on geographic and occupational sub categories, is then discussed in the detailed result section from page 16.

Which of these objectives do you feel is most important as a focus of the changes in financial instrument accounting? (N=627)

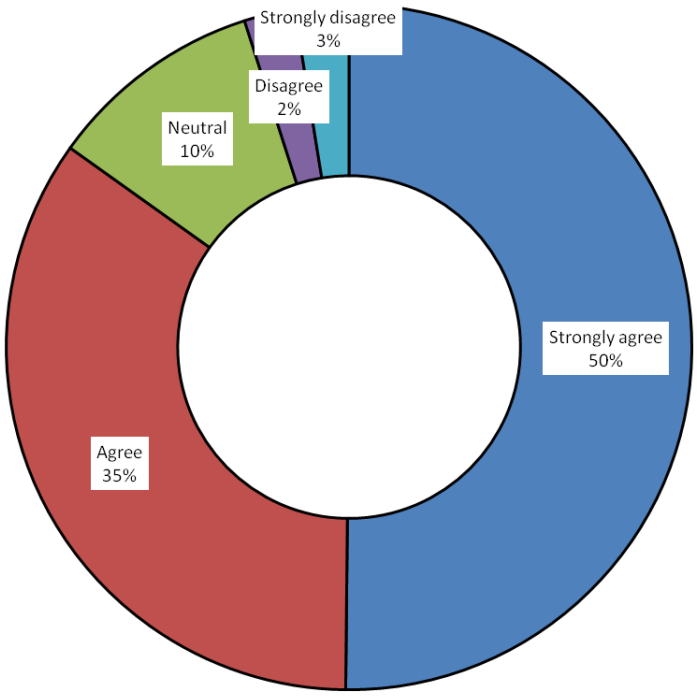


KEY MESSAGE:

IMPROVING DECISION-USEFULNESS IS THE MOST IMPORTANT OBJECTIVE. THE PURSUIT OF MULTIPLE OBJECTIVES IS ALSO NECESSARY, ALTHOUGH REDUCING COMPLEXITY AND SEEKING A CONVERGED SOLUTION ARE SECONDARY GOALS

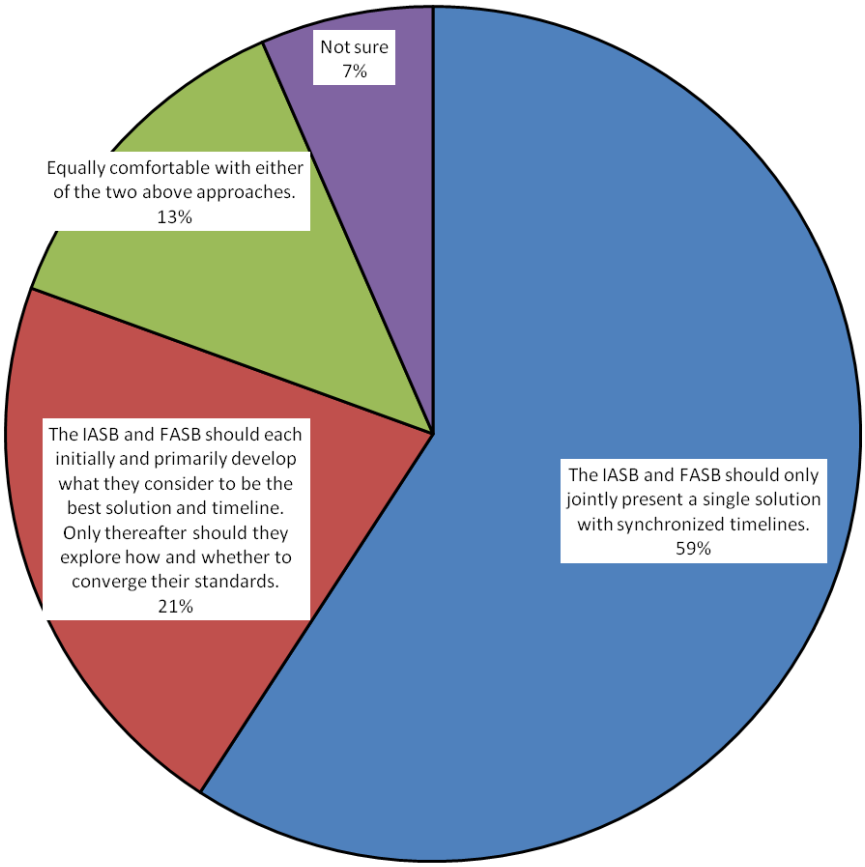
THERE IS CONSISTENT PRIORITISATION OF IMPROVING DECISION-USEFULNESS OF FINANCIAL INSTRUMENT ACCOUNTING INFORMATION, REGARDLESS OF WHETHER RESPONDENTS CONSIDER A SINGLE OR MULTIPLE OBJECTIVES AS BEING MOST IMPORTANT.

Based on experience thus far, to what extent do you agree or disagree that IASB and FASB convergence should remain one of the objectives of financial reporting reform? (N=628)

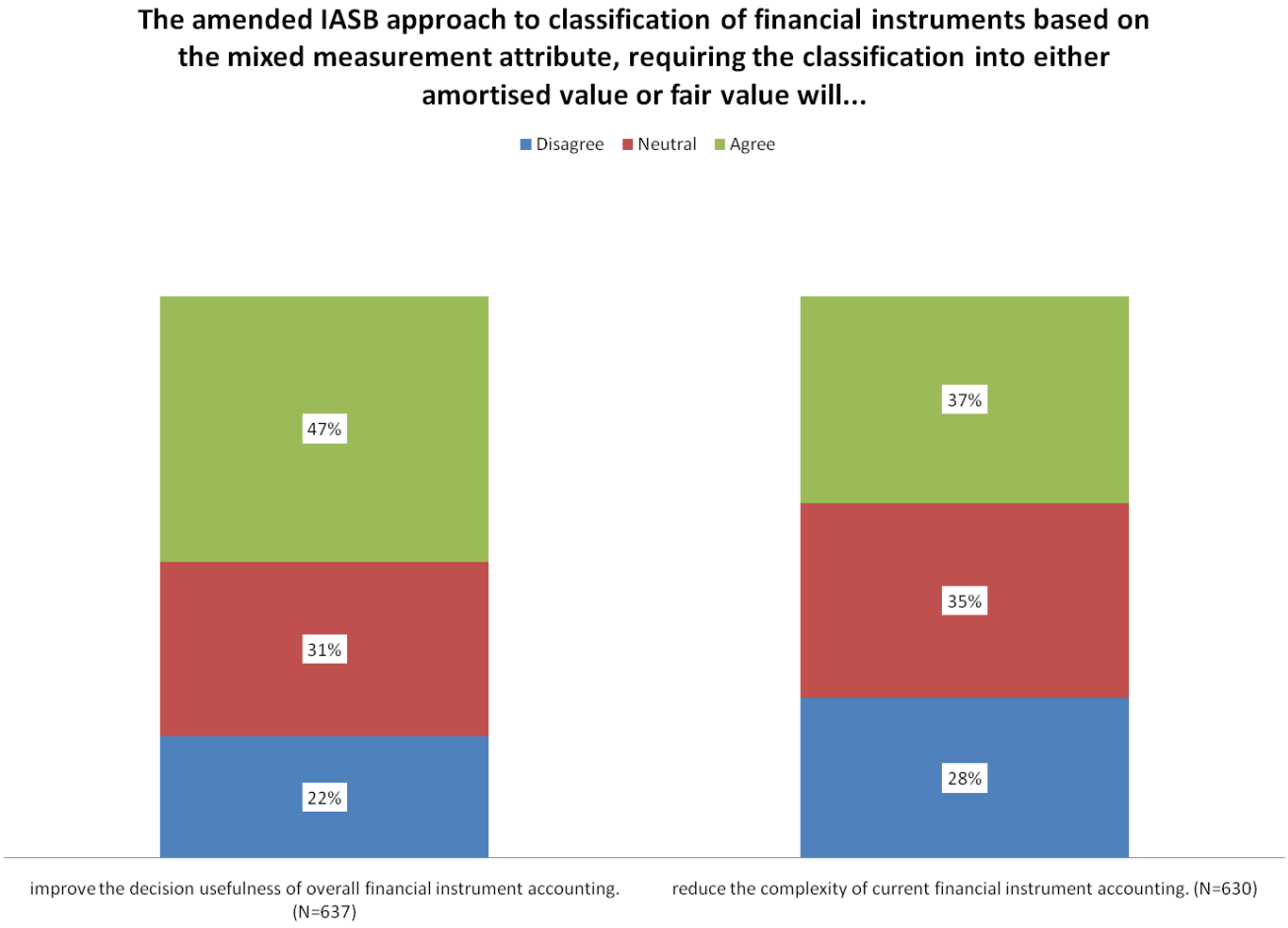


KEY MESSAGE: CONVERGENCE SHOULD REMAIN AN OBJECTIVE OF FINANCIAL REPORTING REFORM

On the assumption that convergence will remain a key objective, which of the following would you consider to be the most appropriate process? (N=627)

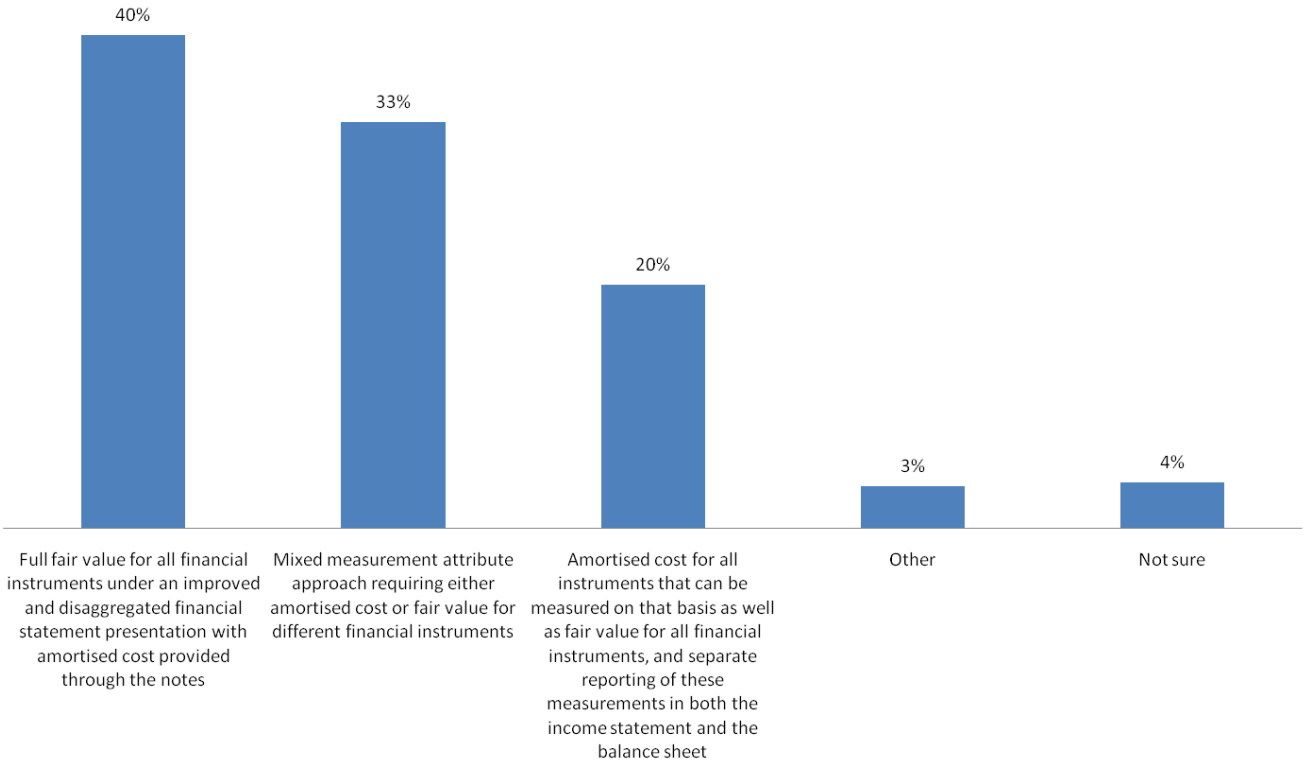


KEY MESSAGE: IASB AND FASB NEED TO COORDINATE AND WORK JOINTLY TOWARDS A CONVERGED SOLUTION

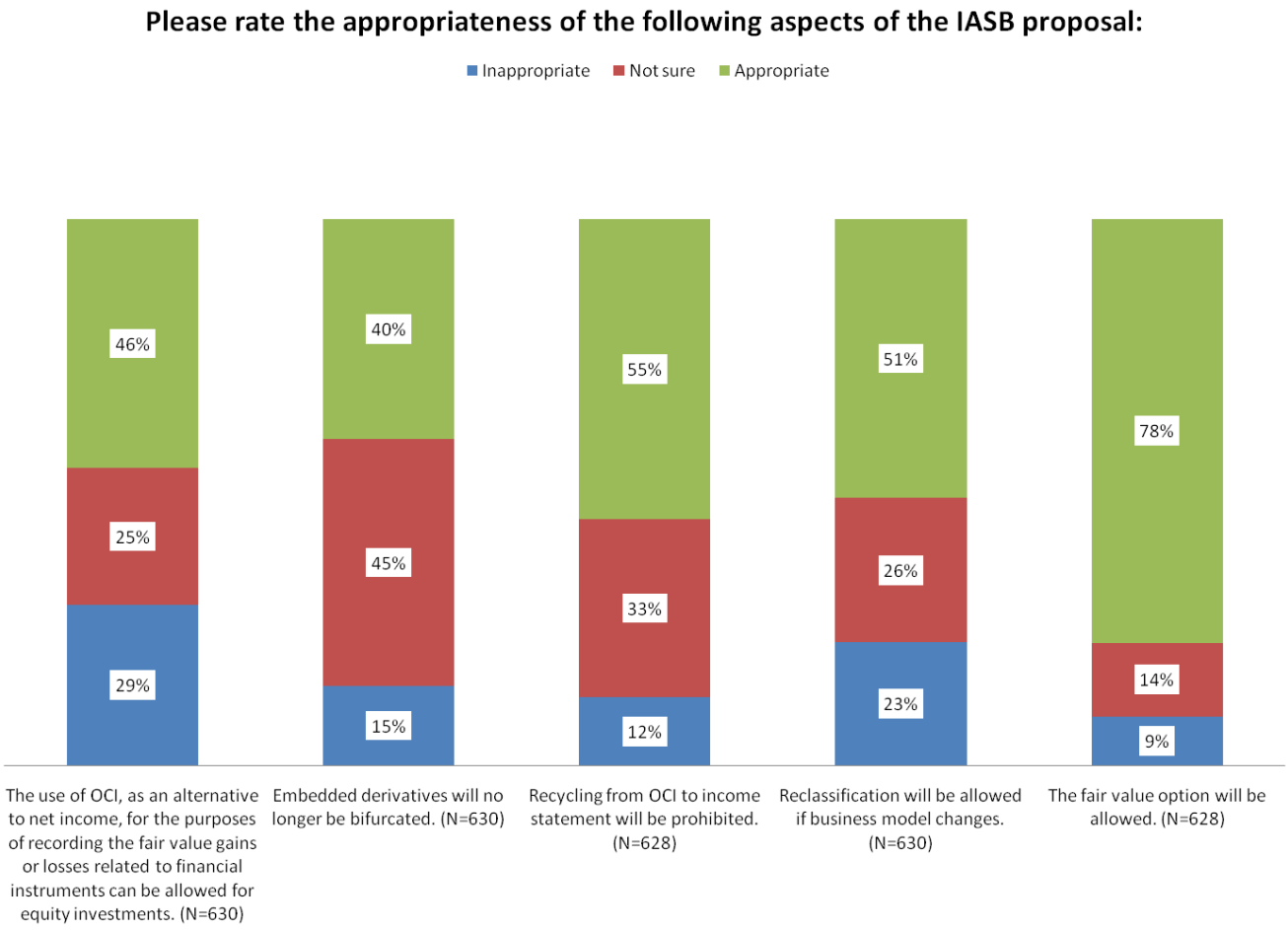


KEY MESSAGE: ON BALANCE, THERE IS SOME PERCEIVED IMPROVEMENT ASSOCIATED WITH THE IFRS 9 *CLASSIFICATION AND MEASUREMENT* STANDARD.

What measurement approach do you consider most appropriate for financial instrument accounting? (N=637)

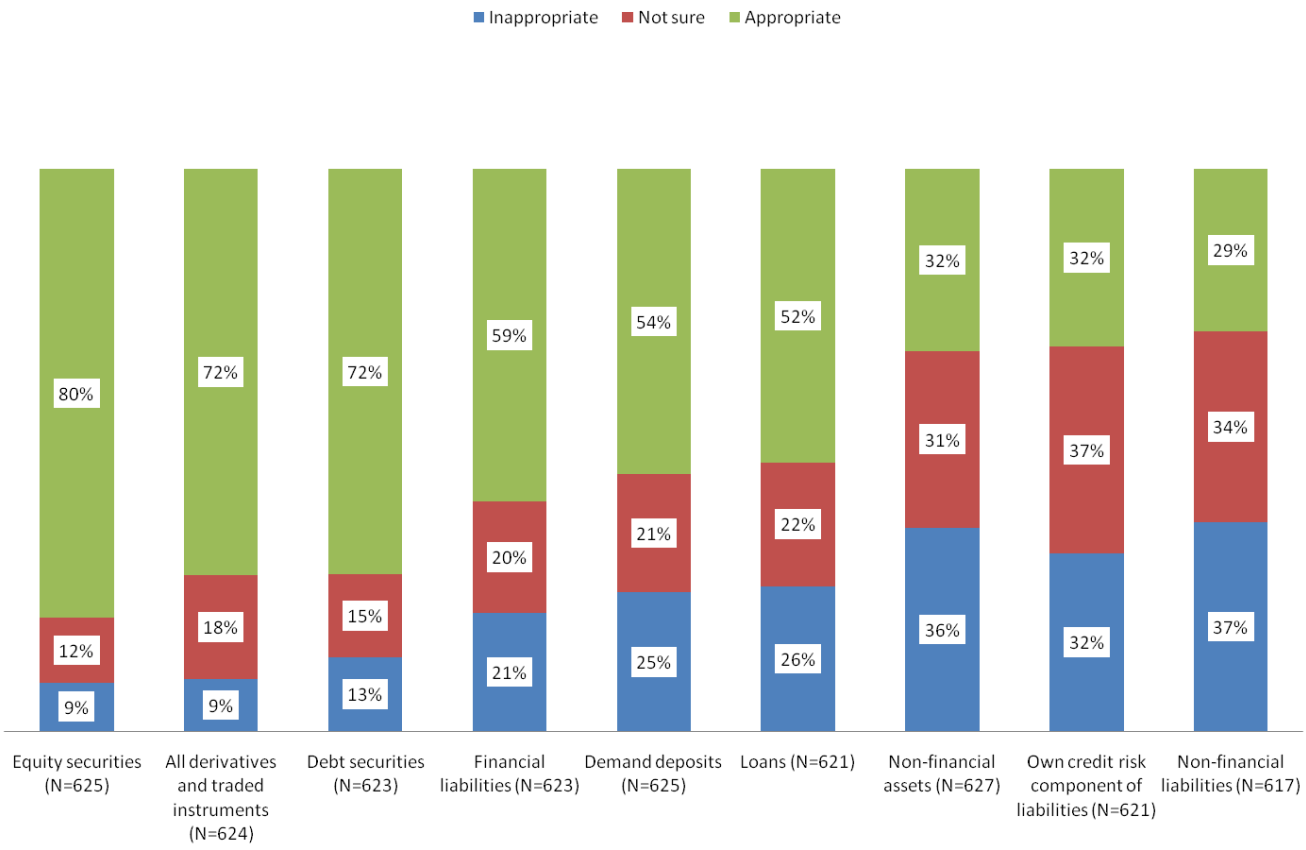


KEY MESSAGE: THERE IS NEED FOR APPLICATION FOR FAIR VALUE TO A GREATER EXTENT THAN IS ALLOWED UNDER A MIXED ATTRIBUTE MODEL



KEY MESSAGE: RESPONDENTS ARE SATISFIED WITH KEY COMPONENTS OF THE IFRS 9 *CLASSIFICATION AND MEASUREMENT* STANDARD

Please rate the appropriateness of fair value based on the notion of exit price for the following assets and liabilities, including financial instruments:



KEY MESSAGE: SUPPORT FOR FAIR VALUE FOR FINANCIAL INSTRUMENTS, INVESTORS NEED TO BETTER UNDERSTAND 'OWN CREDIT RISK'

4 DETAILED RESULTS- BREAK DOWN BY GEOGRAPHIC AND OCCUPATIONAL CATEGORIES

The results which are described below are primarily broken down by geographical region and occupational category.

4.1 Objectives of Financial Instrument Accounting Reform

4.1.1 Perceived Importance of Objectives of Financial Instrument Accounting Reform

There are several reasons for reforming financial instrument accounting, including:

- Improving decision-usefulness of financial reporting information
- Reducing complexity for financial instrument accounting
- Seeking a converged solution with FASB

Table 1 outlines details of the responses to the question on importance of different objectives. Respondents were asked to choose which of the objectives of improving decision usefulness, reducing complexity and getting a converged solution, they considered to be most important. In the event that a respondent considered each of these objectives to be equally important, there was an option that catered for that. In other words, respondents had to select one of seven possible options to cater for their preference for a single objective or multiple objectives. The findings show that:

- Those who view multiple objectives are more (60%) than those (40%) who consider a single objective to be the most important;

- Of the 40% who consider a single objective as most important, most (26%) view improving decision usefulness as being that objective;

- 79% of respondents believed improvement of decision-usefulness of financial instrument accounting to be *at least as* or *more important* a goal than reducing complexity and convergence. On a similar basis, 59% viewed reducing complexity and 41% viewed convergence as primary goals.

- Few meaningful subgroup differences exist.

Table 1: Objectives of Financial Instrument Reform

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test.

	Region					Occupation				
	Total	AMER (B)	APAC (C)	EMEA (D)	Unknown (E)	Research Analyst (F)	Portfolio Manager (G)	Accountant/ Auditor (H)	Corporate Financial Analyst (I)	All Other (J)
Which of these objectives do you feel is most important as a focus of the changes in financial instrument accounting?										
Sample Size	*627*	*345*	*89*	*179*	*14*	*152*	*143*	*115*	*74*	*143*
Improving decision usefulness of information	26%	25%	29%	23%	43%	24%	29%	23%	26%	25%
Reducing complexity of current financial reporting	8%	**7%**	8%	**12%**	0%	**11%**	8%	9%	**3%**	8%
Seeking a converged standard between FASB and IASB	6%	6%	7%	**4%**	**21%**	5%	4%	6%	9%	8%
Improving decision usefulness and reducing complexity	25%	27%	26%	22%	29%	24%	20%	27%	27%	29%
Improving decision usefulness and convergence	9%	10%	9%	10%	0%	**14%**	8%	8%	11%	**6%**
Reducing complexity and convergence	7%	6%	4%	9%	0%	5%	6%	10%	7%	6%
All three reasons are equally most important	19%	20%	17%	19%	7%	17%	24%	17%	18%	18%
Total: Decision Usefulness	*79%*	*81%*	*81%*	*74%*	*79%*	*79%*	*82%*	*75%*	*81%*	*78%*
Total: Reducing Complexity	*59%*	*59%*	*55%*	*63%*	*36%*	*57%*	*58%*	*63%*	*54%*	*62%*
Total: Convergence	*41%*	*41%*	*37%*	*43%*	*29%*	*41%*	*43%*	*41%*	*45%*	*37%*

4.1.2 Approach to Convergence

On the premise of convergence and the pursuit of a joint solution is on the agenda, the respondents were asked for their views on the most appropriate path of objective a converged solution. Table 2 describes the results, disaggregated by sub groups. The results show that:

- 59 % of members felt the most appropriate process was for the IASB and FASB to jointly present a single solution with synchronized timelines, and 21 % felt the most appropriate was for the IASB and FASB to each initially and primarily develop what they consider to be the best solution and timeline (only thereafter should they explore how and whether to converge their standards);

- Regionally, a higher proportion of members in EMEA feel (68 %) the IASB and FASB jointly presenting a single solution is the best process than of members in the Americas (54 %);

- A higher proportion of auditors (67 %) feel that a coordinated approach is most suitable, than do research analysts (52 %) and other user groups of portfolio managers and corporate financial analysts.

Table 2 Approach to Convergence

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups.

		Region				Occupation				
	Total	AMER (B)	APAC (C)	EMEA (D)	Un-known (E)	Research Analyst (F)	Portfolio Manager (G)	Accountant/ Auditor (H)	Corp. Fin. Analyst (I)	All Other (J)
Which of the following would you consider to be the most appropriate process?										
Sample Size	*627*	*345*	*89*	*179*	*14*	*152*	*142*	*115*	*75*	*143*
The IASB and FASB should only jointly present a single solution with synchronized timelines	59%	**54%!!**	62%	**68%!!**	64%	**52%!!**	61%	**67%!!**	56%	60%
The IASB and FASB should each initially and primarily develop what they consider to be the best solution and timeline.	21%	22%	21%	19%	36%	**26%**	**15%**	**15%**	**28%**	24%
Equally comfortable with either of the two above approaches.	13%	**17%**	**2%**	**11%**	0%	14%	**19%**	**10%**	**5%**	13%
Not sure	7%	**7%**	**15%**	**2%**	0%	**9%**	4%	9%	**11%**	**3%**

4.1.3 Convergence as an Objective

Respondents were asked whether convergence should remain one of the objectives of financial reporting reform. The results in Table 3 show that:

- 85 % either strongly agree or agree that IASB and FASB convergence should remain one of the objectives of financial reporting reform;
- Regionally, a higher proportion of members in EMEA strongly agree or agree (93 %) that convergence should remain one of the objectives of financial reporting report than of members in the Americas (80 %).

Table 3 Perspective on Convergence

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups.

	Region					Occupation				
	Total	AMER (B)	APAC (C)	EMEA (D)	Unknown (E)	Research Analyst (F)	Portfolio Manager (G)	Accountant/ Auditor (H)	Corp. Fin. Analyst (I)	All Other (J)
Based on experience thus far, to what extent do you agree or disagree that IASB and FASB convergence should remain one of the objectives of financial reporting reform?										
Sample Size	*628*	*347*	*88*	*179*	*14*	*153*	*144*	*115*	*73*	*143*
Strongly agree	50%	**43%**	52%	**63%!!**	50%	46%	44%	57%	56%	52%
Agree	35%	37%	33%	30%	43%	**41%**	37%	**28%**	**27%**	35%
Neutral	10%	**13%**	**13%**	**5%**	0%	9%	14%	8%	11%	9%
Disagree	2%	3%	0%	2%	0%	1%	3%	3%	3%	2%
Strongly disagree	3%	3%	2%	1%	7%	3%	2%	4%	3%	1%

4.2 Overall Evaluation of IFRS 9 Classification and Measurement Standard

4.2.1 Attainment of Objectives

Respondents were asked whether the amendments improved decision usefulness and reduced complexity of financial instrument accounting. The results in Table 4 show that:

- 47 % of respondents agree that it will improve the decision usefulness of overall financial instrument accounting; and
- 37 % agree that it will reduce the complexity of current financial instrument accounting.
- In both the above responses on decision usefulness and reducing complexity, those who agree the objective was attained exceed those who do not. However, about one-third of members are neutral on these statements.
- No significant regional differences exist.
- A significantly higher proportion of accountants/auditors than of research analysts and corporate financial analysts agree that the amended IASB approach to classification of financial instruments based on the mixed measurement attribute will reduce the complexity of current financial instrument accounting. Only 24% of Corporate Financial Analysts viewed the standard amendments as having reduced complexity, while 32% did not view it as such.

Table 4 Overall Evaluation of Attainment of IFRS 9 Objectives

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups. In addition, if any subgroup preference yields a different overall conclusion than the total and is within a key subgroup, the data has been emphasized with a red asterisk.

		Region				Occupation				
	Total	AMER	APAC	EMEA	Unknown	Research Analyst	Portfolio Manager	Accountant/ Auditor	Corporate Financial Analyst	All Other
		(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Agreement - improve the decision usefulness of overall financial instrument accounting.										
Sample Size	*637*	*353*	*90*	*180*	*14*	*157*	*144*	*118*	*74*	*144*
Disagree	22%	24%	22%	18%	21%	24%	22%	20%	22%	21%
Neutral	31%	32%	28%	31%	29%	27%	37%	28%	32%	32%
Agree	47%	44%	50%	52%	50%	50%	42%	52%	46%	47%
Agreement - reduce the complexity of current financial instrument accounting.										
Sample Size	*630*	*349*	*90*	*177*	*14*	*155*	*144*	*116*	*72*	*143*
Disagree	28%	31%	26%	25%	29%	28%	28%	28%	32%*	28%
Neutral	35%	35%	37%	35%	14%	**39%**	35%	**27%**	**44%**	31%
Agree	37%	34%	38%	40%	57%	**33%!!**	37%	**46%!!**	**24%*!!**	**41%**

4.2.2 Comparison to FASB Model

As an alternative approach, FASB is considering a model that would require most financial instruments to be measured at fair value on the balance sheet. For certain instruments, the balance sheet would provide both fair value and amortised cost values. For earnings, under this model, amortised cost measurements would be preserved within net income with fair values in excess of amortised cost measures being recorded in OCI. Another key difference is that equity instruments will not be accounted for through OCI. The survey asked for respondent comparative view of the FASB model relative to the IASB standard. The results in Table 5 show that:

- 40 % of members view the potential FASB to be better than the IASB standard, 31 % view it to be worse than the IASB approach, and 8 % feel there is no difference. 21 % are not sure;
- No statistically significant regional differences exist, however there is a higher reported preference for the FASB model in the Americas relative to other regions;
- A higher proportion of accountants/auditors prefer the IASB approach.

Table 5 Comparison to FASB model

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups. In addition, if any subgroup preference yields a different overall conclusion than the total and is within a key subgroup, the data has been emphasized with a red asterisk.

		Region								
	Total	AMER (B)	APAC (C)	EMEA (D)	Unknown (E)	Research Analyst (F)	Portfolio Manager (G)	Accountant/ Auditor (H)	Corporate Financial Analyst (I)	All Other (J)
How do you view this alternative approach relative to the proposed IASB approach?										
Sample Size	*634*	*353*	*88*	*179*	*14*	*156*	*143*	*118*	*74*	*143*
Better	40%	43%	35%	37%	36%	43%	45%	35%	41%	36%*
Worse	31%	28%	33%	34%	43%*	**25%**	28%	**36%*!!**	30%	**36%*!!**
No difference	9%	8%	11%	8%	0%	**6%**	**13%**	**12%**	7%	**5%**
Not sure	21%	20%	20%	21%	21%	**26%**	**13%**	17%	23%	**24%**

4.2.3 Optimal Approach to Improving Financial Instrument Accounting

Respondents were asked about the most appropriate approach of improving financial instrument accounting. The results in Table 6 show that:

- 33 % think a mixed measurement attribute approach requiring either amortised cost or fair value for different financial instruments is most appropriate;

- It can be inferred that 60% of respondents prefer some variant of full fair value for financial instruments (i.e. 40% selected full fair value, with amortised cost in the notes, and 20% selected both amortised cost and full fair value in financial statements with separate presentation);

- It can also be inferred that 53% prefer retention of some form of amortised cost.

Occupational differences

- 3 % said some other measurement approach is most appropriate, though it is not clear from the comments provided what this alternative is considered to be. 4 % are not sure.

Regional differences

- Regionally, a higher proportion of members in APAC and EMEA (39 % and 40 %, respectively) favor the mixed measurement attribute approach than do members in the Americas (27 %).

- Accountants/auditors are also more highly in favor of this approach (47 %) than are respondents that are likely to be users (i.e. research analysts, portfolio managers, and corporate financial analysts.)

Table 6: Optimal approach to improving Financial Instrument Accounting

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups In addition, if any subgroup preference yields a different overall conclusion than the total and is within a key subgroup, the data has been emphasized with a red asterisk.

		Region								
	Total	AMER (B)	APAC (C)	EMEA (D)	Unknown (E)	Research Analyst (F)	Portfolio Mgr (G)	Accountant/ Auditor (H)	Corp. Financial Analyst (I)	All Other (J)
What measurement approach do you consider most appropriate for financial instrument accounting										
Sample Size	*637*	*353*	*90*	*180*	*14*	*157*	*144*	*118*	*74*	*144*
Mixed measurement attribute approach	33%	**27%!!**	**39% ***	**40% ***	50%*	**31%**	**26%**	**47%*!!**	**24%**	**35%**
Full fair value for all financial instruments under an improved and disaggregated financial statement presentation with amortised cost provided through the notes	40%	42%	34%	39%	43%	38%	40%	38%	49%	40%
Amortised cost for all instruments that can be measured on that basis as well as fair value for all financial instruments, and separate reporting of these measurements in the income statement and balance sheet	20%	22%	19%	17%	7%	**26%**	**24%**	**10%**	19%	17%
Other	3%	4%	3%	2%	0%	2%	5%	4%	1%	4%
Not sure	4%	5%	4%	2%	0%	**4%**	**6%**	**0%**	**7%**	3%

4.3 Evaluation of Specific Components of IFRS 9 Classification and Measurement Standard

Respondents were asked for their views on appropriateness of specific components of IFRS 9 Classification and Measurement standard. The results in
Table 7 show that:

- Across all the elements, the proportion of respondents who think it is appropriate exceeded those who think it inappropriate;

- 78 % think allowing the fair value option is appropriate, 55 % think prohibiting recycling from OCI to income statement is appropriate, and 51 % think allowing reclassification if the business model changes is appropriate;

- Less than half (46 %) think allowing the use of OCI, as an alternative to net income for the purposes of recording the fair value gains or losses related to financial instruments for equity investments is appropriate;. 40 % think no longer bifurcating embedded derivates is appropriate;

- More than a third of respondents are not sure about not bifurcating embedded derivatives and prohibiting recycling from OCI to income statement.

Sub-category analysis
Regional differences

- Regionally, a higher proportion of members in the Americas (32 %) think allowing the use of OCI for the purposes of recording the fair value gains or losses related to financial instruments for equity investments is inappropriate than of members in Asia Pacific (19 %).

- 45 % of members in the Americas think no longer bifurcating embedded derivates is appropriate compared to only 33 % of members in EMEA.

- Higher proportions of members in AP and EMEA (61 % and 60 %, respectively) think allowing reclassification, if the business model changes, is appropriate than of members in the Americas (44 %).

Occupation category differences

- 52 % of accountants/auditors think it is appropriate to no longer allow bifurcation of derivatives, compared to only 32 % of research analysts and 33 % of portfolio managers.

- A higher proportion of accountants/auditors (62 %) think it's appropriate to allow reclassification than of members in other occupations.

- A higher proportion of accountants/auditors (41 %) think it's inappropriate to allow the use of OCI than of members in other occupations (all less than 30 %).

- Compared to other occupations, a higher proportion of accountants also think prohibiting recycling from OCI to the income statement is inappropriate.

- Finally, a higher proportion of accountants/auditors (86 %) think allowing the fair value option is appropriate than of portfolio managers and corporate financial analysts (69 % and 73 %, respectively). More research analysts than portfolio managers and corporate financial analysts also think this is appropriate.

Table 7 Evaluation of IFRS 9 Specific Elements

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups. In addition, if any subgroup preference yields a different overall conclusion than the total and is within a key subgroup, the data has been emphasized with a red asterisk.

		Region								
	Total	AMER (B)	APAC (C)	EMEA (D)	Unknown (E)	Research Analyst (F)	Portfolio Manager (G)	Accountant/ Auditor (H)	Corporate Financial Analyst (I)	All Other (J)
The use of OCI, as an alternative to net income, for the purposes of recording the fair value gains or losses related to financial instruments can be allowed for equity investments.										
Sample Size	*630*	*349*	*89*	*179*	*13*	*153*	*144*	*117*	*73*	*143*
Inappropriate	29%	**32%**	**19%!!**	29%	38%	**28%**	**24%**	**41%*!!**	**25%**	**29%**
Not sure	25%	25%	28%	25%	8%	25%	31%	21%	23%	22%
Appropriate	46%	43%	53%	46%	54%	46%	45%	38%	52%	48%
Embedded derivatives will no longer be bifurcated.										
Sample Size	*630*	*348*	*89*	*179*	*14*	*155*	*142*	*117*	*73*	*143*
Inappropriate	15%	**12%**	16%	**19%**	14%	12%	13%	16%	15%	18%
Not sure	45%	43%	46%	48%	64%	**56%**	**54%**	**32%**	45%	**35%**
Appropriate	40%	**45% *!!**	38%	**33%**	21%	**32%**	**33%**	**52% *!!**	40%	**47%***
Recycling from OCI to income statement will be prohibited.										
Sample Size	*628*	*346*	*89*	*179*	*14*	*155*	*143*	*115*	*72*	*143*
Inappropriate	12%	13%	11%	12%	14%	**7%**	**10%**	**22%**	**6%**	**17%**
Not sure	33%	32%	35%	34%	29%	37%	36%	28%	36%	27%
Appropriate	55%	55%	54%	54%	57%	56%	55%	50%	58%	56%
Reclassification will be allowed if business model changes.										
Sample Size	*630*	*347*	*89*	*180*	*14*	*156*	*143*	*114*	*73*	*144*
Inappropriate	23%	**25%**	**15%**	23%	14%	21%	25%	20%	25%	23%
Not sure	26%	**32%**	25%	**17%**	21%	**29%**	**30%**	**18%**	**37%**	**21%**
Appropriate	51%	**44%**	**61%**	**60%**	64%	**50%**	**45%**	**62%**	**38%**	**56%**
The fair value option will be allowed.										
Sample Size	*628*	*346*	*89*	*179*	*14*	*155*	*144*	*114*	*73*	*142*
Inappropriate	9%	11%	4%	7%	7%	9%	10%	6%	8%	10%
Not sure	14%	14%	17%	11%	7%	**12%**	**20%**	**8%**	**19%**	**11%**
Appropriate	78%	75%	79%	82%	86%	**79% (G)**	**69%**	**86%**	**73%**	**80%**

4.4 Application of Fair Value across Different Assets And Liabilities

Respondents were asked for their views on appropriateness of fair value application across different assets and liabilities. The results in Table 8 show that:

- The results show support for the application fair value across all categories except for non-financial assets and non-financial liabilities. The evaluation on own credit risk is inconclusive;

- Those assets and liabilities members rated as most appropriate for fair value based on the notion of exit price are equity securities (80 % of members said this is appropriate), all derivatives and traded instruments (72 % appropriate), debt securities (72 % appropriate), and financial liabilities (59 % appropriate);

- Those with the lowest %age of members indicating appropriateness are non-financial assets, own credit risk component of liabilities, and non-financial liabilities;

- Large proportions of members are not sure about the own credit risk component of liabilities (37 %), non-financial liabilities (34 %), and non-financial assets (31 %).

Sub category analysis

Regional differences

- Fewer proportions considered fair value to be appropriate for derivatives in the America. However it is still a majority of respondents (68 per cent)

Occupational differences

- Higher proportions of accountants/auditors think the following are appropriate for fair value based on the notion of exit price: all derivatives and traded instruments (higher than research analysts, portfolio managers, accountants/auditors, and all other), equity securities (higher than portfolio managers), and debt securities (higher than research analysts and portfolio managers).

Table 8 Fair value across Different Assets and Liabilities

Any significant differences between subgroups are shaded in blue within the table, indicating a statistically significant result of a pair-wise test. The (!!) symbol within the blue shaded cell depicts any noteworthy difference within either of the key regional or occupational subgroups. In addition, if any subgroup preference yields a different overall conclusion than the total and is within a key subgroup, the data has been emphasized with a red asterisk.

		Region								
	Total	AMER (B)	APAC (C)	EMEA (D)	Unknown (E)	Research Analyst (F)	Portfolio Manager (G)	Accountant/ Auditor (H)	Corp. Fin. Analyst (I)	All Other (J)
Appropriateness of fair value based on the notion of exit price for the following assets and liabilities, including financial instruments.										
Demand deposits										
Sample Size	*625*	*346*	*89*	*176*	*14*	*152*	*141*	*115*	*75*	*142*
Inappropriate	25%	25%	24%	26%	7%	27%	24%	24%	21%	25%
Not sure	21%	20%	20%	24%	14%	24%	21%	16%	24%	20%
Appropriate	54%	55%	56%	50%	79%	49%	55%	60%	55%	55%
Loans										
Sample Size	*621*	*341*	*89*	*177*	*14*	*151*	*139*	*115*	*75*	*141*
Inappropriate	26%	24%	26%	31%	14%	26%	28%	21%	23%	29%
Not sure	22%	23%	18%	24%	14%	20%	25%	22%	23%	21%
Appropriate	52%	54%	56%	46%	71%	54%	47%	57%	55%	50%
Financial liabilities										
Sample Size	*623*	*344*	*89*	*176*	*14*	*151*	*141*	*113*	*75*	*143*
Inappropriate	21%	22%	22%	20%	7%	20%	25%	19%	20%	20%
Not sure	20%	21%	17%	19%	21%	17%	23%	17%	25%	20%
Appropriate	59%	58%	61%	60%	71%	63%	52%	64%	55%	60%
Own credit risk component of liabilities										
Sample Size	*621*	*342*	*89*	*176*	*14*	*152*	*141*	*113*	*74*	*141*
Inappropriate	32%	34%	29%	28%	36%	27%	31%	35%*	26%	37%*
Not sure	37%	37%	35%	39%	21%	40%	39%	**30%**	**47%**	**31%**
Appropriate	32%	29%	36%*	34%	43%*	33%	30%	35%*	27%	32%
All derivatives and traded instruments										
Sample Size	*624*	*342*	*89*	*179*	*14*	*152*	*140*	*115*	*75*	*142*
Inappropriate	9%	**12%**	**4%**	8%	0%	9%	**12%**	**3%**	11%	**11%**
Not sure	18%	20%	19%	15%	14%	**22%**	**24%**	**10%**	**20%**	15%
Appropriate	72%	**68%**	76%	**77%**	86%	**69%**	**64%**	**87%!!**	**69%**	**74%**
Equity securities										
Sample Size	*625*	*344*	*89*	*178*	*14*	*152*	*141*	*115*	*74*	*143*
Inappropriate	9%	10%	8%	8%	0%	7%	**13%**	6%	12%	**6%**
Not sure	12%	12%	12%	11%	7%	13%	13%	10%	11%	10%
Appropriate	80%	78%	80%	81%	93%	80%	**73%**	**84%!!**	77%	**84%**
Debt securities										
Sample Size	*623*	*343*	*88*	*178*	*14*	*153*	*139*	*115*	*75*	*141*
Inappropriate	13%	**17%**	9%	**9%**	7%	14%	17%	10%	8%	14%
Not sure	15%	14%	15%	16%	14%	16%	**20%**	**9%**	15%	13%
Appropriate	72%	69%	76%	75%	79%	**70%**	**63%**	**82%!!**	**77%**	73%
Non-financial assets										

Sample Size	*627*	*346*	*89*	*178*	*14*	*152*	*142*	*115*	*75*	*143*
Inappropriate	36%	39%	35%	33%	29%	34%	32%	39%	33%	43%
Not sure	31%	32%	30%	31%	29%	32%	33%	28%	39%	29%
Appropriate	32%	29%	35%	37%*	43%	35%*	35%*	33%	28%	29%
Non-financial liabilities										
Sample Size	*617*	*340*	*89*	*174*	*14*	*148*	*140*	*115*	*75*	*139*
Inappropriate	37%	37%	42%	36%	21%	35%	35%	40%	35%	40%
Not sure	34%	36%	27%	34%	43%	33%	38%	31%	37%	32%
Appropriate	29%	27%	31%	30%	36%	32%	27%	29%	28%	28%

5 APPENDIX

Detailed Response rate

	Invited	Responded	Response Rate
Total	**16,297**	**641**	**3.9%**
Americas (AMER)	10,642	357	3.4%
Asia Pacific (APAC)	2,448	90	3.7%
Europe, Middle East, Africa (EMEA)	3,126	180	5.8%
Unknown	81	14	17.3%

	Invited	Responded	Response Rate
Total	**16,297**	**641**	**3.9%**
Survey pool	227	102	44.9%
Member sample	15,769	489	3.1%
Webcast registrants	263	40	15.2%
Known or potential interest in financial reporting	38	10	26.3%

Financial reporting survey pool (N=227)

The survey pool was developed in early November, 2009, as a vehicle for surveying members with an expressed financial reporting interest and knowledge and willingness to participate in surveys relating to financial reporting, in order to obtain the best feedback from the most qualified group of members on the subject. Upon recruitment, 227 members joined the pool. Based on feedback from respondents to this survey, who have indicated their willingness to provide feedback on an ongoing basis, this pool has increased to 503.

Targeted sample of CFA Institute members (N=15,769)

To supplement the survey pool until enough members can be recruited, we include a targeted sample of members in the distribution. This consisted of members with one of the following occupations AND an expressed interest in financial statement analysis: Academic-Accounting, Accountant/Auditor, Actuary, Appraiser, Corporate Financial Analyst, Credit Analyst, Investment Banking Analyst, Portfolio Manager, Research Analyst, Treasurer.

Members with an expressed interest in financial reporting and recent webcast participants (N=301)

Provided by CFA Institute Centre for Financial Market Integrity staff.

Key sub categories

Sample Characteristics

Regional Respondents:	
Americas	55%
APAC	14%
EMEA	28%

Occupational Groups:	
Research Analyst	25%
Portfolio Manager	23%
Accountant/Auditor	19%
Corporate Financial Analyst	12%