Council of Institutional Investors®
The voice of corporate governance

Via E-Mail

September 27, 2021

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: Request for Information: Third Agenda Consultation[1]

Dear International Accounting Standards Board (IASB or Board) Members:

I am writing on behalf of the Council of Institutional Investors (CII). CII is a nonprofit, nonpartisan association of United States (U.S.) public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners with about $4 trillion in assets, and a range of asset managers with more than $40 trillion in assets under management.[2]

As the leading voice for corporate governance, CII places great importance on financial statements and related disclosures as "a critical source of information to institutional investors making investment decisions."[3] And CII believes that the quality, comparability and reliability of the information contained in those financial statements, "in turn, depends directly on the quality of the financial reporting standards that: [] enterprises use to recognize, measure and report their economic activities and events . . . ."[4] Importantly, CII also believes that the responsibility to promulgate accounting standards "should reside with independent organizations" that, among other attributes, are accountable to investors.[5]

This letter is in response to the IASB's "Request for Information, Third Agenda Consultation" (Consultation).

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[1] International Accounting Standards Board, Request for Information, Third Agenda Consultation (Mar. 2021), https://www.ifrs.org/content/dam/ifrs/project/third-agenda-consultation/rfi-third-agenda-consultation-2021.pdf.
[2] For more information about the Council of Institutional Investors ("CII"), including its board and members, please visit CII's website at http://www.cii.org.
[3] Council of Institutional Investors, CII Policies, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters** (Updated, Mar. 1, 2017), https://www.cii.org/policies_other_issues.
[4] *Id.*
[5] *Id.*

General Observations

CII generally supports the IASB's current level of focus for each main activity described in the Consultation. However, we recommend a number of modest changes to the Board's allocation of resources including more investor-focused initiatives to increase investor engagement across the IASB's activities.

CII generally believes the IASB has identified the right criteria when assessing the priority of financial reporting issues that could be added to its work plan. We, however, recommend the Board view its first criteria—the importance of the matter to investors—as an initial screen. If the IASB determines that a potential project is not of sufficient importance to investors, the project should not be added to the work plan and the Board's analysis of the remaining six criteria should not be necessary.

CII generally believes, that among the potential projects identified by the Board, we would rate as a high priority the following four projects:

- Intangible assets
- Climate-related risks
- Income taxes,
- Statement of cash flows.

Responses to Select Questions

The following responses to select questions raised in the Consultation provide more details regarding CII's general observations:

Question 1—Strategic direction and balance of the Board's activities
The Board's main activities include:
• developing new IFRS Standards and major amendments to IFRS Standards;
• maintaining IFRS Standards and supporting their consistent application;
• developing and maintaining the IFRS for SMEs Standard;
• supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
• improving the understandability and accessibility of the Standards; and
• engaging with stakeholders.
Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.
(a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.

(b) Should the Board undertake any other activities within the current scope of its work?[6]

CII generally supports the IASB's current level of focus for each main activity. We, however, offer the follow comments for Board consideration:

With respect to the main activity of "Stakeholder engagement,"[7] CII would support the higher-end of the "**current level of level of focus**: 20%-25%"[8]

As indicated, CII's membership approved policies have long reflected the view that in order to meet the demands of the investing public, accounting standard setters, including the IASB, must be accountable to investors, who are the key customer of financial accounting and reporting.[9] And investor accountability requires that standard setters actively solicit and carefully consider investor input.[10] Consistent with those policies, we support the IASB's suggestion to "arrange more investor-focused . . . initiatives to increase investor engagement across the Board's activities."[11]

In addition, CII generally agrees with the Board that "the current level of resources is appropriate and sufficient to deliver timely improvements to financial reporting"[12] However, we believe, consistent with our policies,[13] that the Board should periodically reconsider whether high quality accounting standards can be brought to market on a timelier basis.

It is our observation that accounting standard setters generally add due process procedures, but rarely consider removing procedures that may no longer provide a net benefit to investors and the quality of the standards produced. We, therefore, would encourage the IASB and IFRS Foundation to periodically explore the potential for due process improvements that may increase the speed at which IFRS standards are developed.

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[6] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 8 (emphasis added).

[7] *Id.* at 17.

[8] *Id.*

[9] *See* Council of Institutional Investors, Corporate Governance Policies § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (updated Sept. 22, 2020), https://www.cii.org/files/policies/09_22_20_corp_gov_policies.pdf ("Investors are the 'customers' and end users of financial statements and disclosures in the public capital markets [and] [b]oth the audit committee and the auditor should recognize this principle"); Council of Institutional Investors, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters** ("Attributes that underpin an effective accounting or auditing standard setter include: . . . Accountability to Investors – A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs").

[10] *See* Council of Institutional Investors, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters** ("Attributes that underpin an effective accounting or auditing standard setter include: . . . A thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards").

[11] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 17.

[12] *Id.* at 11.

[13] *See* Council of Institutional Investors, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters**.

In addition, CII generally believes that the "interconnection between financial reporting and sustainability reporting deserves some attention in the future standard-setting activities of the IASB . . . and can benefit the development of both types of standards."[14] We, therefore, believe that some level of the IASB's resources should be allocated to liaison activities with the proposed International Sustainability Standards Board and other international and domestic sustainability standard setters. We note that our view is generally consistent with the following comments of the International Organization of Securities Commissions (IOSCO):

> We . . . observe that, with proposed amendments to the Constitution of the IFRS Foundation that are necessary to formalize the establishment of a new international sustainability standards board, there is likely to be some level of interaction between the IASB and the new board. Many members expect the two boards to work, to some extent, in an interconnected manner, in appropriate circumstances, ensuring that neither set of standards contradicts or is at tension with the other.[15]

We understand that increasing the Board's resources in any of the areas described above might mean "that fewer resources are available for the other activities."[16] In that regard, the Board, if necessary, should first consider reducing the current level of focus on the "understandability and accessibility of the Standards."[17]

It is our observation that activities to improve the "understandability" of financial reporting far too often focus on preparer representatives' efforts to decrease the information available to investors sometimes in the guise of "reducing unnecessary complexity."[18] Those activities, in our view, are not an appropriate use of the limited resources of an effective, independent accounting standard setter.

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan
Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.
(a) Do you think the Board has identified the right criteria to use? Why or why not?
(b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?[19]

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[14] *See, e.g.*, Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Mr. Erkki Liikanen, Chairman, IFRS Foundation 9 (attachment Dec. 17, 2020), https://www.cii.org/files/issues_and_advocacy/correspondence/2020/Attachment-ABedits.docx%20(Final)%20LN.pdf.
[15] Letter from Makoto Sonoda, Chair, Committee on Issuer, Accounting, Audit and Disclosure, International Organization of Securities Commissions to International Accounting Standards Board 3 (Sept. 13, 2021), http://eifrs.ifrs.org/eifrs/comment_letters//587/587_28997_InternationalOrganizationofSecuritiesCommissionsIOSCOInternationalOrganizationofSecuritiesCommissionsIOSCOInternationalOrganizationofSecuritiesCommissionsIOSCO_0_IOSCOC1commentletteronAgendaConsultation.pdf (footnote omitted).
[16] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 12, ¶ 17 (emphasis omitted).
[17] *Id.* at 16.
[18] *Id.*
[19] *Id.* at 8 (emphasis added).

CII generally believes the IASB has identified the right criteria when assessing the priority of financial reporting issues that could be added to its work plan. We generally support the statement in the Consultation that "the Board evaluates a potential project for inclusion in its work plan *primarily by assessing whether the project will meet investors' needs*, while taking into account the costs of producing the information"[20] Despite this statement, however, we share the view of "some members . . . [of IOSCO that] the Board [should] . . . explain how the various criteria are weighted or balanced."[21]

We note that CII's membership-approved policies relating to accounting standard setting referenced in Question 1 were informed by the 2008 recommendation of the U.S. Securities and Exchange Commission's Advisory Committee on Improvements to Financial Reporting (Committee). The Committee concluded that "investor perspectives should be given *pre-eminence* by all parties involved in standards-setting."[22] Consistent with that conclusion, we would respectfully recommend that the Board give preeminence or assign a greater weight to the Board's first criteria: "The importance of the matter to investors."[23]

More specifically, we recommend the IASB view the first criteria as an initial screen.[24] If the Board determines that a "potential project" is not of sufficient importance to investors the project should not be added to the work plan and the analysis of the remaining six criteria should not be necessary. We believe this approach could over time free up resources to be used for other Board work plan activities that are more likely to benefit investors.

Question 3 Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan
(a) What priority would you give each of the potential projects described in Appendix B—high, medium or low—considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.[25]

[20] *Id.* at 19, ¶ 21 (emphasis added).
[21] Letter from Makoto Sonoda, Chair, Committee on Issuer, Accounting, Audit and Disclosure, International Organization of Securities Commissions to International Accounting Standards Board at 5.
[22] Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission 10 (Aug. 1, 2008), https://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf (emphasis added & footnote omitted).
[23] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 19, ¶ 21.
[24] *See, e.g.*, Letter from Marcie Frost, Chief Executive Officer, California Public Employees' Retirement System to Andreas Barckow, Chair, International Accounting Standards Board, International Financial Reporting Standards Foundation 3 (Sept. 24, 2021), http://eifrs.ifrs.org/eifrs/comment_letters//587/587_29083_JeremyMcCarrollCaliforniaPublicEmployeesRetirementSystemCalPERS_0_CalPERSCommentonIASBThirdAgendaConsultation.pdf ("we are concerned that the other six criteria could result in less, rather than more, robust disclosure by companies").
[25] *Id.* at 9 (emphasis added).

CII appreciates that the "Board has limited capacity to take on new projects so it can add only a small number of projects to its work plan."[26] As such, we have prioritized our suggestions for financial reporting issues that could be added to the IASB's work plan to the following four potential projects of the 22 listed in Appendix B of the Consultation:[27]

- "**Intangible assets**"[28]
- "**Climate-related risks**"[29]
- "**Income taxes,**"[30]
- "**Statement of cash flows and related matters**."[31]

Intangible assets

As you are aware, in a September 6 interview with the *Wall Street Journal*, Andreas Barckow the new Chair of the IASB described the two most pressing accounting issues facing the Board as "intangible assets [and] sustainability and [environmental, social and governance]."[32] Just four days earlier in connection with a CII webinar on the Consultation, Mary Morris, co-chair of the Human Capital Management Coalition (HCMC), and investment officer of CII member fund California State Teachers' Retirement System, presented to IASB members Mary Tokar and Zach Gast a potential project that arguably checks the box on both of Chair Barckow's pressing issues—"Human Capital Management."[33]

CII believes human capital is an important intangible asset and there is a pervasive need for more information about human capital management in the financial statements.[34] More specifically,

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[26] *Id.* at 30, ¶ B3(b).
[27] *See id.* at 31.
[28] *Id.* at 44.
[29] *Id.* at 32.
[30] *Id.* at 42.
[31] *Id.* at 51; *cf.* Letter from Marcie Frost, Chief Executive Officer, California Public Employees' Retirement System to Andreas Barckow, Chair, International Accounting Standards Board, International Financial Reporting Standards Foundation at 3 (recommending a focus on "climate risk . . . intangible assets, pollutant pricing mechanisms, [and] statement of cash flows and related matters.").
[32] Mark Maurer, CFO Journal, The New Head of the International Accounting Standards Board Outlines His Priorities, Wall. St. J. (Sept. 6, 2021), https://www.wsj.com/articles/the-new-head-of-the-international-accounting-standards-board-outlines-his-priorities-11630936800 (subscription required).
[33] Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Management - Data – Disclosure Needs, Prepared for CII Webinar – IASB Agenda Consultation (Sept. 2, 2021) (on file with CII).
[34] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 6 (Oct. 17, 2019), https://www.cii.org/files/issues_and_advocacy/correspondence/2019/October%2017%202019%20SEC%20comment%20letter.pdf ("Institutional and retail investors have a pronounced interest in clear and comparable information about how public companies approach [Human Capital Resources] HCR"); *see also* Climate Change and Social Responsibility: Helping Corporate Boards and Investors Make Decisions for a Sustainable World: Hearing Before the H. Comm. on Fin. Serv. Subcomm. on Investor Protection, Entrepreneurship and Cap. Markets (Feb. 25, 2021) (testimony of James Andrus, Investment Manager, Board Governance and Sustainability, CalSTRS at 5), https://docs.house.gov/meetings/BA/BA16/20210225/111245/HHRG-117-BA16-Wstate-AndrusJ-20210225.pdf

we generally agree with the recommendation of the HCMC that the IASB should, as an initial step, require more information about labor costs by requiring a financial statement footnote disclosure about the total cost of a company's workforce, defined to include "salaries/wages, benefits such as health care, employer's contribution to Medicare and Social Security, value of equity-based compensation, commissions and bonuses, perquisites, overtime, severance payments, and retirement . . . ."[35] As presented, this would generally involve disaggregating labor costs from a company's selling, general and administrative expenses and cost of sales line items.[36]

We note that many of the amounts to be included in the proposed footnote are already collected by companies' human resources departments[37] and are already reported in some form by companies in the United Kingdom and European Union.[38] We therefore, believe the proposed footnote would not likely require costly new systems and changes in control processes.[39]

("comprehensive, high-quality, consistent, and comparable disclosures of climate risk, . . . [and] human capital management . . . are critical to the long-term success of capital markets, and more critically, of investors").

[35] Letter from The Human Capital Management Coalition to Hillary H. Salo, Technical Director, Chair, Emerging Issues Task Force, Financial Accounting Standards Board 5 (Sept. 22, 2021), https://bit.ly/3CS2CqL; s*ee* Letter from Aeisha Mastagni, Portfolio Manager & Mary Hartman Morris, Investment Officer, California State Teachers' Retirement System to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 2 (Oct. 26, 2019), https://www.sec.gov/comments/s7-11-19/s71119-6353231-195593.pdf (describing total workforce costs to include: "Salaries, bonuses and pensions inclusive of all employees - guaranteed pay, variable pay, benefits and equity pay").

[36] *See* Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Data, Fundamental Disclosures for Optimal Analysis and Decision Making, Prepared for FASB Agenda Consultation 15 (Feb. 26, 2021) (on file with CII) ("Data already included in SG&A or COGS"); *see also* Letter from John Streur, President and CEO, Calvert Research and Management to Chairman Gary Gensler, U.S. Securities and Exchange Commission 3 (Aug. 30, 2021), https://www.sec.gov/comments/climate-disclosure/cll12-9190246-249462.pdf ("Total workforce cost information links human capital management data directly to line items reported in a company's financial statements"); Dr Anthony Hesketh, Department of Organization, Work & Technology, Lancaster University Management School to Anne Sheehan, Chairman, Investor Advisory Committee, U.S. Securities and Exchange Commission 5 (Mar. 21, 2019), https://www.sec.gov/comments/265-28/26528-5180428-183533.pdf ("In the U.S. reporting context, human capital is a currently neglected factor of economic production requires a higher level of granularity afforded to it than currently offered by the cost of goods sold (COGS) or the general sales and administration (GS&A) on current income statements.").

[37] S*ee, e.g.*, Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Data, Fundamental Disclosures for Optimal Analysis and Decision Making, Prepared for FASB Agenda Consultation at 9 ("Most companies also collect information for internal HR purposes such as processing payroll, also mitigating any potential costs").

[38] *See, e.g.,* Dr Anthony Hesketh, Department of Organization, Work & Technology, Lancaster University Management School to Anne Sheehan, Chairman, Investor Advisory Committee, U.S. Securities and Exchange Commission at 8 (attachment) ("Compared to the UK and EU, the most striking of these is total workforce cost with less than 1:8 in the US, compared to 100% in the EU and UK.").

[39] S*ee, e.g.*, Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Data, Fundamental Disclosures for Optimal Analysis and Decision Making, Prepared for FASB Agenda Consultation at 9 ("Most companies also collect information for internal HR purposes such as processing payroll, also mitigating any potential costs").

While the costs for a footnote disclosure of total workforce costs would be minimal, the potential benefits to investors would likely be significant.[40] As Professor Shivaram Rajgopal, the Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing at Columbia Business School explains:

> Before we talk about human capital measures and all of the SEC's new initiatives, which are welcome, can somebody just tell me what the labor costs are? That would help me a lot, because that is proxy for fixed cost. If I don't know fixed cost, I don't know operating leverages for companies. This is like finance 101. So, if somebody wants to do something about the "S," [of ESG] please make sure we all get information about labor costs. That would be, I think, a step forward. In my class we spent six hours trying to guesstimate what a company's labor cost are. We use Glassdoor, indeed, LinkedIn as resources. So, the "S" related to labor has a lot of potential in terms of understanding future performance. Especially, subtle things like culture, which is important, but very hard to quantify. But right now, there is virtually nothing in terms of "S" related to labor. So, I would start there. Even if we do not accomplish a lot with this ESG movement, getting information about workforces would really help me as a fundamental analyst.[41]

Climate-related risks

CII believes that climate change is a systemic risk, so it is critical that investors can access clear disclosures of the risks it poses to long-term value creation by the companies in which they invest.[42] We also believe that ensuring that climate risk is properly disclosed is vital to maintaining our efficient and vibrant capital markets and to the long-term success of investors as well as issuers.[43]

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[40] *See* Letter from Marcie Frost, Chief Executive Officer, California Public Employees' Retirement System to Andreas Barckow, Chair, International Accounting Standards Board, International Financial Reporting Standards Foundation at 3 ("Such information is critical to enabling investors to make better investment decisions, close the information gap, and identify risks and opportunities."); *see also* Letter from John Streur, President and CEO, Calvert Research and Management to Chairman Gary Gensler, U.S. Securities and Exchange Commission at 4 ("We would . . . use this information to further assess how compensation aligns with company strategy, how companies reward performance, and how compensation might relate to other human capital metrics . . . ."); *cf.* Neeraj Tandon, Total Workforce – The New Magic Work for CFOs (Apr. 17, 2018), https://www.willistowerswatson.com/en-IN/insights/2018/04/Total-cost-of-workforce-the-new-magic-word-for-CFOs (discussing how total workforce costs can lead to better management decisions).

[41] Stakeholder Capitalism and ESG, CII Podcast (Nov. 11, 2020), https://www.cii.org/podcasts; *see* Shivaram Rajgopal, Labor Costs Are the Most Pressing Human Capital Disclosure the SEC Should Consider Mandating, Forbes (May 17, 2021) (on file with CII) ("labor costs—measured in dollars—eminently qualifies as a plausible and useful disclosure item); *see also* Jim DeLoach, The ESG Reporting Endgame: Lessons From Human Capital Reporting (Sept. 21, 2021) (on file with CII) (noting how human capital management information relates to both the "S" and "G" in ESG reporting framework and has led CFOs to evaluate how "*human capital management strategies and decisions affect the bottom line*").

[42] *See, e.g.,* Testimony of James Andrus, Investment Manager, Board Governance and Sustainability, CalSTRS at 6 ("Climate change is a systemic risk, so it is critical that investors can access clear disclosures of the risks it poses to long-term value creation by the companies in which they invest.").

[43] *Id.* ("Ensuring that climate risk is properly portrayed in financial statements is vital to maintaining our efficient and vibrant capital markets and to the long-term success of investors as well as issuers.").

We would not object to the potential projects described in the Consultation to (1) "lower the threshold for disclosing information about sources of estimation uncertainty in paragraph 125 of IAS 1 *Presentation of Financial Statement*,"[44] and (2) "broaden the requirements in IAS 36 *Impairment of Assets* for cash flow projections to be used in measuring value in use when testing assets for impairment."[45]

A more modest approach that we expect would be a much smaller potential project requiring fewer Board resources would be to simply propose amendments to the existing disclosure requirements of IAS 1[46] and IAS 36[47] to explicitly require information about climate risk.[48] We believe prioritizing this potential project either alone or in combination with either or both of the larger projects identified by the Board would improve the information about climate risk and help investors better evaluate potential return on investment and make more informed comparisons among investment opportunities.[49]

Income taxes

CII is aware that that many investors have been requesting more granularity and disaggregation of income taxes, including a breakdown of income tax information to better assess global tax risk.[50]

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[44] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 33, ¶ B11(a).
[45] *Id.* at 33, ¶ B11(b).
[46] *See* IASB, Effects of Climate-Related Matters on Financial Statements (Nov. 2020), https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf ("disclosures about climate-related matters may be required, for example when those matters create uncertainties that affect assumptions used to develop estimates, such as estimates of future cash flows when testing an asset for impairment or the best estimate of expenditure required to settle a decommissioning obligation [and] [i]f climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, IAS 1 requires disclosure of those uncertainties.")
[47] *Id.* ("IAS 36 requires disclosure of the events and circumstances that led to the recognition of an impairment loss, for example, the introduction of emission-reduction legislation that increased manufacturing costs.").
[48] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Hillary H. Salo, Technical Director, File Reference No. 2021-004, FASB 6 (Sept. 16, 2021), https://www.cii.org/files/issues_and_advocacy/correspondence/2021/September%2016%202021%20%20Fasb%20Agenda%20Consultation%20(final)-AB%20(003).pdf ("We note that the FASB staff has specifically identified six disclosures required under existing U.S. generally accepted accounting principles (GAAP) which could be amended by the Board to improve the information disclosed on climate risk."); *cf.* Letter from Marcie Frost, Chief Executive Officer, California Public Employees' Retirement System to Andreas Barckow, Chair, International Accounting Standards Board, International Financial Reporting Standards Foundation at 3 ("we . . . understand the important areas of shared relevance with the IASB, as set out in the 2019 discussion, provided by Nick Anderson, as one example").
[49] *See* Testimony of James Andrus, Investment Manager, Board Governance and Sustainability, CalSTRS at 6 (commenting that improved disclosures on climate risk "helps investors properly evaluate potential return on investment and to make informed comparisons among investment opportunities"); *see also* Madison Condon, Market Myopia's Climate Bubble 55 (Feb. 9, 2021) (B.U. School of L. Res. Paper), https://ssrn.com/abstract=3782675 or http://dx.doi.org/10.2139/ssrn.3782675 ("climate risk considerations [should be] . . . included in U.S. generally accepted accounting principles (GAAP)").
[50] *See, e.g.,* FASB Invitation to Comment, Agenda Consultation 8 (June 24, 2021), https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176176828145&acceptedDisclaimer=true ("investors requested more granularity and disaggregation about the . . . [b]reakdown of income tax information to better assess global tax risk").

For example, we understand that many investors agree that jurisdictional or country-by-country information, such as income taxes paid, could assist investors in better understanding a company's exposure to potential changes in tax legislation and the global tax risk companies may face.[51] Such information could assist investors in analyzing a company and making capital allocation decisions.[52] In that regard, we note the following comments of MFS Investment Management, which, in a recent letter to the Financial Accounting Standards Board (FASB), observed:

> As a result of substantial changes at a national and supranational level, as well as greater scrutiny by civil society more broadly, we have spent considerable time researching and evaluating corporate tax practices. Our research has helped us to better model earnings risk and opportunity. It has also allowed us to assess corporate governance more comprehensively, as we believe a company's tax practices—much like its accounting practices—offer an important signal regarding a management team's and board's risk tolerance.
>
> Unfortunately, our research in this area is impaired by a lack of transparency regarding corporate tax practices.
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> . . . [W]e do believe investors would benefit from improved disclosure regarding corporate taxes.[53]

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[51] *See id.* at 10 ("investors suggested a variety of possible enhancements, including requiring disclosure of the amount of cash taxes paid by jurisdiction or geographical segment . . . ."); *see, e.g.,* Letter from Carine Smith Ihenacho, Chief Corporate Governance Officer & Wilhelm Mohn, Head of Sustainability, Corporate Governance, Norges Bank Investment Management to Financial Accounting Standards Board, Atten. Technical Director, File Reference No. 2019-500, FASB (May 28, 2019), https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836007715&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=570216&blobheadervalue1=filename%3DDISFR-TAXR.ED.008.NBIM_CARINE_SMITH_IHENACHO_WILHELM_MOHN.pdf&blobcol=urldata&blobtable=MungoBlobs ("we consider that taxes should be paid where economic value is generated and see country by-country reporting as a core element of transparent corporate tax disclosure"); Letter from American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) et al. to Shayne Kuhaneck, Acting Technical Director, File Reference No. 2019-500, FASB 1 (May 31, 2019), https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836010761&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=573866&blobheadervalue1=filename%3DDISFR-TAXR.ED.033.INVESTORS_SEE_LISTED.pdf&blobcol=urldata&blobtable=MungoBlobs ("tax information at the country-by-country level is what investors require to better understand a company's financial, reputational, and economic risks, gauge their level of risk tolerance, and make informed investment decisions").

[52] *See, e.g.,* Letter from Carine Smith Ihenacho, Chief Corporate Governance Officer & Wilhelm Mohn, Head of Sustainability, Corporate Governance, Norges Bank Investment Management to Financial Accounting Standards Board, Atten. Technical Director, File Reference No. 2019-500, FASB ("We are concerned that limiting foreign income tax disclosure to an aggregate number will not provide investors such as NBIM with sufficient information for our financial analysis.").

[53] Letter from Ted Maloney, Chief Investment Officer, MFS Investment Management to Ms. Hillary H. Salo, Technical Director, Financial Accounting Standards Board (Apr. 12, 2021), (https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836277919&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=644659&blobheadervalue1=filename%3DITD-

Presentation of Statement of Cash Flows

CII agrees with the IASB feedback that "investors, preparers and standard setters – suggested the Board undertake a project to amend IAS 7."[54] More specifically, we would support an amendment of IAS 7 to improve the statement of cash flows to require presentation of cash flows from operating activities under the direct method.[55]

We generally agree with those investors who have expressed the view that the:

> [I]ndirect method, which most companies utilize today to report cash flows, is not intuitive and does not provide sufficient decision-useful information. For example, some investors noted that the most decision-useful cash flow information, such as cash collected from customers, is only available in a statement of cash flows prepared using the direct method, which companies rarely utilize.[56]

Highly disaggregated operating cash flows would provide much needed data, which many investors have been demanding for far too many years.[57] As one example, a 2009 public letter from the FASB's Investor Technical Advisory Committee to the Board stated:

> We strongly support the required use of a direct method cash flow statement. Although both U.S. GAAP and IFRS allow the use of either the direct or the indirect method, the overwhelming choice of reporting companies has been the indirect method, which provides **no actual cash flow information within the operating section, the single most important section of the cash flow statement.**[58]

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[54] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 51, ¶ B76.

[55] *See, e.g.*, Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Hillary H. Salo, Technical Director, File Reference No. 2021-004, FASB at 8 ("More specifically, we would support as a top priority for the Board to improve the statement of cash flows to require presentation of cash flows from operating activities under the direct method.").

[56] FASB Invitation to Comment, Agenda Consultation at 12-13; *see, e.g.*, Letter from Jane B. Adams et al. to Technical Director, File Reference No. 2021-004, FASB 2 (Sept. 22, 2021), https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836332637&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=1343615&blobheadervalue1=filename%3DAGENDACONSULT.ITC.064.ALLIANCE_OF_CONCERNED_INVESTORS_SEE_LISTED.pdf&blobcol=urldata&blobtable=MungoBlobs ("We recommend the Board *require* the use of the direct method rather than leaving as a preferred method of presentation that companies chose to ignore").

[57] *See, e.g.*, CFA Institute, Comprehensive Business Reporting Model, Financial Reporting for Investors 13 (July 2007), https://www.cfainstitute.org/-/media/documents/article/position-paper/comprehensive-business-reporting-model.ashx (stating that a principle of business reporting for investors is that the "**cash flow statement provides information essential to the analysis of a company and should be prepared using the direct method only**," and that investors identified the need for requiring the direct method in 1993).

[58] Letter from Rebecca T. McEnally, Member, ITAC to Mr. Russell Golden, FASB Technical Director, Financial Accounting Standards Board 25 (July 1, 2009) (on file with CII).

We also note that in 2021 many preparers agree that the direct method is more useful not only for investors but for management. A recent article on this topic directed at Chief Financial Officers concludes:

> The indirect cash flow statement is useless as a business tool,[] . . .
>
> The direct method, on the other hand, serves as a tool because finance staff can create a forecast that executives can understand and is actionable.[59]

In addition, CII would not object to the IASB requiring more information in the cash flow statement on "the effect of non-cash movements arising from transactions such as leases, supply chain financing arrangements . . . and the factoring of trade receivables."[60] We generally agree with the following comments of Nick Anderson, a member of IASB, in a July joint meeting with the FASB about the respective agenda consultation documents:

> Transactions such as supply chain financing, lease exceptions, and international issues where debt is acquired through a business combination, are all economically equivalent to cash flow but have bypassed the cash flows statement. "I'm wondering whether we need a wholesale review of that statement. … can we really get back to that mantra—can we actually say 'cash is king?'"[61]

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Thank you for consideration of CII's views. If we can answer any questions or provide additional information, please do not hesitate to contact me.

Sincerely,

Jeff Mahoney

Jeffrey P. Mahoney
General Counsel

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[59] Robert Freedman, Editor, Direct Method Touted as Best Way to Forecast Cash Flow, CFO DIVE (Mar. 9, 2021), https://www.cfodive.com/news/direct-method-cash-flow-forecasting/596422/.
[60] International Accounting Standards Board, Request for Information, Third Agenda Consultation at 51, ¶ B76(a).
[61] CPAJ News Briefs: FASB, AICPA, The CPA J. (Aug. 2021), https://www.cpajournal.com/2021/08/12/cpaj-news-briefs-fasb-aicpa-8/.