Media Contacts:

Kathy Valentine CFA Institute - North America
434-951-5348
kathy.valentine@cfainstitute.org

Evonne Lum Ogilvy Public Relations - New York
212-884-4026
evonne.lum@ogilvypr.com

CFA CENTRE PROPOSES COMPREHENSIVE FINANCIAL REPORTING STANDARDS TO MEET INVESTOR NEEDS FOR TRANSPARENCY, CLARITY, COMPREHENSIVE DISCLOSURES

Partnerships Needed Among Investors, Standard-Setters, Public Companies To Strengthen Financial Statements Through 12 New Recommended Principles

(Read *A Comprehensive Business Reporting Model: Financial Reporting for Investors*)
(Read *What Every Investor Should Know*: *The Value of an Annual Report* and*A Quick Look at Proxy Statements*)

CHARLOTTESVILLE, VA, October 24, 2005 — The CFA Centre for Financial Market Integrity — the policy and advocacy arm of CFA Institute — today outlined a new financial reporting model that would greatly enhance the ability of financial analysts and investors to evaluate companies in making investment decisions. The Centre called on standard-setters, public companies, investors, and others to promote widespread use of these new recommendations to overhaul corporate financial statements.

"As businesses develop new products and services, the financial reporting model must keep pace to ensure that financial statements are relevant, clear, accurate, and complete," said Rebecca T. McEnally, CFA, Ph.D., project director of the Comprehensive Business Reporting Model and director of the Capital Markets Policy Group for the CFA Centre. "Investors worldwide are too often in the dark about the true value of companies because accounting practices fail to reflect the economics of today's business operations.

"The timing is right for moving forward," McEnally continued. "Progress is already underway by the Financial Accounting Standards Board, the International Accounting Standards Board, and other standard setters. They have made many improvements such as in the areas of stock option expensing, derivatives accounting, and pension disclosures. Let's build on this momentum to overhaul financial statements and serve investors' needs."

McEnally today unveiled the financial reporting model at a joint meeting of the Financial Accounting Standards Board and the International Accounting Standards Board. The project culminates three years of research with input from a broad range of experts in financial analysis and investments.

Financial reporting and disclosure must provide all of the information that common stock owners need to evaluate their investments, McEnally said. To accomplish this, the Centre's report outlines 12 principles:

• A company's financial statements must be prepared from an investor's perspective.

• The only information useful for financial decision-making is fair value information, which is the current worth of assets and liabilities.

• Recognition (how transactions are to be accounted for) in financial statements and disclosure must be determined by the usefulness of the information to investment decision-making – not by measurement reliability alone.

• A financial statement must include the economic impact of all of the company's activities.

• Investors' investment decisions "must determine the 'materiality' threshold." Materiality is defined as the importance of an event or information in influencing investors' decisions and, thus, the company's stock price. This threshold should be based upon what will affect investors' decisions and not upon preparers' arbitrary answers.

• The financial reporting methods chosen by a company should not be influenced by the effects of the method (for example, whether it causes net income to rise or fall).

• All changes in net assets (assets minus liabilities) must be recorded in a single, new financial statement (the Statement of Changes in Net Assets Available to Common Shareowners).

• All changes in fair values of assets and liabilities should be recognized in the statement as they occur.

• The Cash Flow Statement (cash inflows and outflows from operating, investing, and financing activities) should be prepared using the direct method (individual cash inflows and outflows are clearly disclosed). This gives investors critical information about the company's ability to survive and grow.

• Changes affecting financial statements must be reported and explained in detail rather than in highly summarized categories.

• Individual line items should be reported based upon the nature of the items, rather than by the function for which they are used. For example, the costs of labor and raw materials should be reported separately rather than being added together as part of "cost of goods sold."

• Disclosures must provide all the additional information that investors require to understand the items recognized in financial statements, including how these items were measured and what risks they posed to the company.

"We invite financial officers and other senior executives to provide their experiences and insights to construct financial statements that will best serve investors," McEnally said.

The Centre's report also calls for broader, more comprehensive disclosures of material that appears in required filings and audited footnotes. The report outlined criteria for the development of effective, useful disclosures:

• Disclosures in footnotes, for example, should not be a substitute for including that information in the financial statement itself.

• Policy choices, assumptions, judgments, and methods must be fully and clearly disclosed.

• Disclosures should provide detailed information for investors to fully understand and interpret the summary information in the financial statements.

The report resulted from the work of CFA Centre with members of the Business Reporting Subcommittee and Corporate Disclosure Policy Council. These members are: Patricia McConnell, chair, senior managing director, Bear, Stearns & Co.; Jane Adams, managing director, Maverick Capital; David Damant, consultant; Barry Ehrlich, CFA, director, MCT Asset Management; Anthony Good, equity research consultant; Robert F. Morgan, CFA, managing director, Forbes Morgan Consulting; Trevor W. Nysetvold, CFA, strategic adviser, mergers and acquisitions, ExxonMobil; David E. Runkle, CFA, research manager, equity research, Piper Jaffray; Toshihiko Saito, CFA, vice president, Capital International Research; Ashwinpaul (Tony) Sondhi, president, A. C. Sondhi & Associates, L.L.C.; Edward (Ted) Stevens, CFA, managing director, credit research department, Blackrock, Inc.; and, Gerald L. White, president, Grace & White, Inc.

About the CFA Centre for Financial Market Integrity:

The CFA Centre develops timely, practical solutions to global capital market issues, while advancing investors' interests by promoting the highest standards of ethics and professionalism within the investment community worldwide. Established in 2004 by CFA Institute as a distinct unit with its own executive director and advisory council, the CFA Centre builds upon the CFA Institute 40-year history of standards and advocacy work, especially its Code of Ethics and Standards of Professional Conduct for the investment profession, which were first established in the 1960s.

About CFA Institute:

CFA Institute is the global, non-profit professional association that administers the Chartered Financial Analyst® (CFA®) curriculum and examination program 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 78,000 members in 121 countries and territories, including the world's 66,000 CFA charterholders, as well as 131 affiliated professional societies in 52 countries and territories. CFA Institute is headquartered in Charlottesville, Va., USA, with regional headquarters in London, Hong Kong, and New York. More information may be found at www.cfainstitute.org. (Bloomberg users can find CFA Institute at 497458Z).

This page was last modified on:Monday, 24 October 2005