

Committee of European Securities Regulators (CESR)
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Response to Consultation Paper CESR/09-859

MSCI Barra is a leading global provider of investment decision support tools, including indices and portfolio risk and performance analytics for use by institutions in managing equity, fixed income and multi-asset class portfolios. Our flagship products are our international equity indices marketed under the MSCI brand and our portfolio analytics marketed under the Barra brand. Our products are used in many areas of the investment process, including portfolio construction and optimization, performance benchmarking and attribution, risk management and analysis, index linked investment product creation, asset allocation, investment manager selection and investment research.

Over the last 40 years we have worked closely with the investment community to ensure that our portfolio management tools reflect the ever-changing nature of the global financial markets. This has given us considerable insight into the impact of regulations on the processes and measures used by a wide range of institutional investors around the world. We believe that this insight, together with the considerable expertise of our highly qualified research team, puts us in a unique position to comment on the CESR Consultation paper.

We appreciate the opportunity to comment on the use of a standard reporting format for financial reporting and we commend the CESR for a thoughtful and effective proposal.

Q1. Do you consider that there should be a standard reporting format for financial reporting of issuers having securities admitted to trading on a regulated market? What kind of pros and cons would a standard reporting format have?

Given the diversity of both the information presented by issuers and the format in which the information is presented in, we believe that a standard reporting format for financial reporting by issuers of securities trading in regulated markets would be beneficial to issuers, investors, regulators, and other users of the financial statements. While standardization brings with it many challenges, we believe the overall benefit to market participants and regulatory bodies warrants adoption of a standard reporting format.

A standardized reporting format would provide a clear and uniform format in which all financial statements would be collected, aggregated, transmitted and stored, which we believe would result in greater efficiency, transparency and ease of access for market

participants. Issuers would be forced to all communicate with regulators, auditors, and investors in a common language, which would enable automated processing of financial information, reducing the manual efforts that would otherwise be required to process the financial statements. The increased ability to automatically process financial statements would, in turn, facilitate both better access to information and the ease with which the information could be put to use once the desired elements were located.

Under a standardized format, all issuers would be required to generate their financial statements in a common language, which would allow for efficiencies at many different places in the financial reporting process. Issuers could leverage outsourced or third party systems, which are already compliant to the reporting standard. This could potentially reduce the burden on issuers to keep their systems up to date and compliant as the reporting standard evolves. It would also open up opportunities for third parties to bring new products to market which could be marketed to issuers who have financial reporting obligations.

The requirement to adhere to a reporting standard could also place undue stress on smaller issuers or those who are heavily invested in legacy reporting technologies. The cost of implementing an entirely new reporting solution, whether home grown or outsourced, could be prohibitive. Institutions whose processes are heavily integrated with existing technologies may be forced to spend significant resources to either adapt their current systems or entirely replace them. Smaller issuers may also be forced to incur significant costs to implement compliant reporting systems.

Unifying and standardizing the reporting format for issuers would also benefit regulators and auditors. Under existing conditions, regulatory bodies and auditors must handle a variety of non-standard formats for financial reports delivered by issuers. The report data must then be interpreted, standardized, and stored, at the expense of the recipient. This can be a difficult task to manage for institutions that aggregate data from a large number of issuers. Given a standard format in which data would be delivered to auditors and regulators, they could focus more of their resources on analyzing and interpreting the financial reports and less energy on managing the data flows. This would allow these bodies to better align the focus of their resources with their intended function within the financial markets.

Another benefit of standardizing on a single reporting format for securities issuers would be the improved access to the financial statements for investors and investment analysts. With the adoption of a standard reporting format, information could be stored in a way that would facilitate quicker and easier access to the information by interested investors and analyst. Common report language would make fields within reports easily identifiable and searchable. Interested parties could have access to search a more broad range of data elements and in return retrieve consistent and accurate results because the information has been reported and flagged according to the accepted standard.

An unintended consequence of the ease of access and improved ability to search the data could be a reduction in market competition and arbitrage opportunities due to the ease with which market participants can access what was once difficult to find information. By

making the full financial reports of securities issuers easily available to the broad community of market participants, those firms who previously relied on the inaccessibility of certain financial information may now find that they have lost their competitive advantage.

Q2. If yes to Q1, do you consider that XBRL would be an appropriate format? Are there any other reporting formats that CESR should consider in this context?

We believe that XBRL could be an appropriate format to consider for adoption as the financial reporting standard for issuers of securities traded on regulated markets. With the adoption of XBRL by US regulators, various stock exchanges, and other global regulators and institutions, it would be advantageous to continue to converge onto a single standard report format. This would allow global firms who have already implemented XBRL for reporting in certain jurisdictions to leverage those systems for reporting to the European Commission. It would also allow firms who have not already adopted XBRL reporting solutions to leverage off of the host of products and services which are already tailored to support financial reporting in XBRL.

Despite the appropriateness of XBRL as a reporting format, we believe that there are organizational issues with the XBRL commission, which, if resolved, would make XBRL a better standard to adapt. Specifically, there are several barriers to participating in the consortium which maintains and advances the standard. This is atypical of an open source standard and could result in a divergence between XBRL and the market requirements for financial reporting.

Q3. What kind of benefits would you consider a standard reporting format to bring for issuers, investors, auditors, analysts, OAMs or other users of financial information?

We would expect that a standard reporting format would be broadly beneficial to all market participants, ranging from issuers to regulators and even to individual investors. While each group may benefit in slightly different ways, the root of the improvements would be centered around the fact that all of the parties in the reporting chain would be communicating in a single language which provides searchable descriptive tags that identify each piece of data being reported. This structure would facilitate more straight forward transmittal, processing, storage, and validation of the data, and ultimately would provide better tools for searching through and reviewing the data.

Issuers would benefit from clear and consistent requirements for their financial reports. Whether they choose to build their own or implement a third party solution, the requirements for how their data should be reported will be well defined and known in advance. Issuers will also be able to track proposed changes and advancements to the reporting standard and possibly contribute to the ongoing development of the standard. Issuers as a group would also benefit from additional impartiality in the market place, as any change to the standard will impact all issuers at the same time. This will force the body that governs the standard to consider the broad impact of changes to the standard well in advance of implementing them.

Investors and analysts should benefit from better access to financial reporting information. With the adoption of a reporting standard, information channels can spend less energy on report collection and storage and devote more resources to providing better access to report information. Financial reports will be presented in clear and consistent format allowing for better searching and more comparable results when referencing data across reports from multiple firms.

Regulators, auditors, and OAM's would benefit from the receipt of all data from all reporting firms in a single and standard format. Systems could be implemented to better automate the validation, inspection, and storage of the data. Their focus can shift from data management to data quality and data inspection, spending more time inspecting and interpreting the data, and less time parsing and preparing the data.

Q4. What kind of disadvantages would you consider a standard reporting format would cause to issuers, investors, auditors, analysts, OAMs or other users of financial information? Do you see any obstacles to such reporting?

It can also be the case that a standardized financial reporting format can pose problems to the parties who are involved in the issuing of or reviewing of the reports. We believe problems would stem from how the reporting standard is controlled, who is involved in contributing to the ongoing maintenance and evolution of the standard, the complexity of the standard, and how rapidly the standard changes.

Serious problems could arise for both financial report issuers as well as financial report recipients if they do not have adequate access to the group which controls the reporting standard. It is in the interest of both the issuers and the regulators and auditors that the evolution of the reporting standard be aligned with the interests of all parties concerned. If the standard evolves too quickly, or evolves in ways which diverge from regulatory or market requirements, it could leave serious gaps between the information required for proper oversight, and the information that the reporting standard recognizes.

Further issues could arise if the standard is overly complex, as could be the case when a standard is adopted and controlled by a diverse group of organizations. The desire for the standard to be broadly adopted can conflict with the varied requirements amongst the controlling group's constituency. If the chosen solution relies too heavily on broadening the standard to accommodate the use cases rather than aligning the interests of the controlling organization's members, the standard can grow too complex to be easily managed.

Another consequence of a broadly adopted standard can be the ease with which the standard can be updated or changed to reflect changing market requirements. Changes will need to be reviewed and approved by the governing body for the reporting standard and depending upon how effective the body is, the changes could take significant time to finalize and then to subsequently adopt.

Standardize reporting formats can represent operational challenges to issuers who must first implement the standard and then must maintain their implementation to keep current

as the standard evolves over time. This can involve significant technology, personnel, and monetary resources.

Q5. What kind of costs (one-off or recurring) would you consider a standard reporting format would impose on issuers, investors, auditors, analysts, OAMs or other users of financial information? Please provide estimated costs, if possible.

The introduction of a standard reporting format would result in additional costs to issuers, auditors, regulators, and investment analysts. These costs would be incurred, in part, as one-time costs associated with the implementation of new systems required for issuing reports or reading and storing reports. There would also be recurring costs related to the maintenance of such systems.

Securities issuers would incur one-time costs associated with implementing new reporting and Extraction Transformation and Loading (ETL) systems required to issue financial reports in the designated standard format. These one-time costs would be the direct result of either purchasing or developing a compliant reporting platform as well as the IT, people, and time costs associated with such an implementation.

Typically a reporting system implementation would involve several phases of construction and testing, and would culminate with the migration of data from the prior system and the production of the reports on the new reporting system. In cases where significant prior report history exists in a legacy data format, extended time would be required to migrate the legacy data to the new system. This time would be spent building the connections to migrate the data and in the quality assurance that would need to be performed after the migration to validate that the transferred data is complete and accurate.

Issuers may also incur new technology costs, both on a one-off and recurring basis related to the new reporting standard. New infrastructure and systems will be needed to support the compliant reporting system. This could likely necessitate initial hardware and other infrastructure spend, plus ongoing support and maintenance costs.

Securities issuers can also expect to have ongoing costs related to maintenance and upkeep of the reporting system. The system will need to be kept up to date as changes are made in the reporting standard or in the internal company infrastructure which may impact the reporting workflow.

Auditors and regulators would see costs in similar areas as issuers. They would need to implement systems to collect the standardized reports from issuers, validate the contents, and store the data for access by analysts, investors, or internal use. However, despite initial and ongoing costs connected with implementing such systems, there would likely be significant cost savings in the long-term.

Costs savings could be achieved from reduced systems and labor required to collect and interpret prior non-standardized report data. As issuers adapt and conform to the reporting standard, an increasingly large share of the data collection, validation, and storage could be automated to leverage the common reporting framework.

Q6. Are the above benefits, disadvantages, obstacles and costs different if the standard reporting format would only cover income statement, balance sheet and cash flow statement instead of full financial report? Please explain the differences.

If the proposed reporting standard were limited in scope, rather than covering the full financial report, we believe that this would result in increased costs, decreased data reliability, and slower adoption by all involved parties. The added impact would stem from the requirement that legacy systems be maintains for handling the report areas not included in the standard reporting format.

By splitting the financial report into two components: the legacy non-standardized format sections and the standardized sections, issuers would need to integrate new reporting solutions into their existing reporting framework but would be forced to maintain their old systems whereby they would split certain reporting functions to the new system and maintain others in the other system. These report components would then need to be aggregated and distributed to analysts, regulators, and auditors.

Report recipients would then need to modify their own systems to handled an even more varied and complex reporting framework where some parts of the data are standardized while others are more free-form. This would hamper the ability of data consumers to analyze and report on the full financial reports of the issuer companies and would results in downstream impact on analyst and investors.

In a situation where an issuer is able to full migrate their financial reporting to the standardized reports, they will eventually recuperate some costs as they decommission older non-compliant reporting systems. Under a model in which those old systems are still actively used for some report components, no costs can be recuperated, and costs will eventually exceed those of a full standardized solution;

Q7. How would you assess the benefits of the use of standard reporting formats against the costs?

We would assess the long term benefit of convergence on to a standard reporting format as very high, even when considered relative to the costs associated with converging reporting systems. The costs of convergence are very steep initially, but level off rather rapidly, where as the benefits of convergence are small initially but grow rapidly and remain large after standardized reporting systems have been fully implemented and automated.

Given proper consideration, the benefits of a standard reporting format will be felt throughout the financial markets, whilst the costs will be incurred largely by issuers, auditors, and regulators, and ultimately those costs should be largely one-time costs related to implementation of standardized reporting systems and infrastructure. In our estimation, the opportunity costs of leaving current systems in place are relatively small when compared to the long term benefits of standardization.

Even greater efficiency savings can be achieved if and when a global financial reporting format is standardized. As it stands today, organizations with multiple global locations have

to file financial reports which could be exposed to different reporting format and content requirements in each jurisdiction. However, this issue cannot be addressed by the European Commission's adoption of a standardized reporting process only, as issuers will not be able to relinquish their other reporting obligations in other jurisdictions outside of the EU.

Q8. Do you envisage any liability and/or audit issues arising from the use of standard reporting format?

Automated systems should be able to provide reasonable measures as to the adherence to the syntax requirements of the reporting standard, and as would currently be the case, a mix of automated and manual checks would be needed to validate that the actual contents of the report have been calculated and labeled correctly.

Neither the syntactic or semantic checks of the reports should be impacted by a change to a standard reporting format in a way that would increase the potential audit requirements or liability concerns. It is possible that the number of audit issues discovered would increase, as we expect that with the standardization of the reporting requirements, it will be easier to identify places in reports where numbers do not match what may be expected, given clear and consistent labeling of data items.

Q9. Are there any other issues CESR should take into account in the analysis of the issue?

We support CESR's initiative to promote a standard financial reporting framework for issuers and we would encourage the further investigation of other reporting standards beyond XBRL.



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