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Dear Ms Pryde

### **Strengthening the IASB's Deliberative Process**

The Association of British Insurers (ABI) represents 400 insurers accounting for some 97% of the business written by the UK insurance company sector.

ABI fully supports the IASB's objective of producing high quality global accounting standards. This is of particular interest to us as our members are both producers and, as major portfolio investors, users of financial statements.

We therefore welcome the opportunity to comment on the IASB proposals for strengthening its deliberative process.

As we understand them, the principal objectives of the IASB are:

- To develop high quality international accounting standards commanding widespread acceptance;
- To promote transparency in financial reporting;
- To facilitate international comparability between financial statements; and
- As a result of the first three objectives, to reduce the cost of capital to those adopting IASB standards.

We welcome the proposals that IASB has made in the Discussion Paper for improving its working practices. In particular, the proposals for improving the way in which it makes information available to interested parties will be helpful. The current monthly updates following each meeting are often too truncated and give insufficient insight into the Board's decision-making process and the likely impact of what has been agreed.

We also welcome the Board's proposal to use existing advisory groups, or an appropriate expert group, to discuss near-final drafts of exposure drafts and standards as part of a "fatal flaws" exercise. It is of crucial importance however that these groups should also be involved in the development of international accounting standards ab initio. We believe that such earlier involvement should be built into the standard setting process. This will not only ensure a better informed debate but may also help to ensure that standards secure a smoother passage

during the final stages of their development. Paragraph 24 is insufficiently clear on this point.

One of our particular concerns relates to the way in which IASB determines whether a standard is likely to satisfy its intended objectives. There are two issues here, both of which have some bearing on the cost of capital. Firstly, the Board has been inclined to adopt a purist approach to financial reporting. We recognise that this is consistent to a large extent with its remit to produce high quality accounting standards that are consistent with its Framework. There are dangers in this approach however where the Board fails to pay due regard to what it is possible to achieve in practice or where IASB requirements are inconsistent with the way in which businesses are managed or result in information being presented to accounts users in a confusing or misleading way. The Board should address this by ensuring that any proposed new standards are subject to a rigorous cost-benefit analysis and, based on this, providing an assessment of how they will result in a net benefit to accounts users **and** preparers.

The second issue relates to field-testing and is to a large extent tied up with the first issue. The most effective way of testing the suitability and cost-effectiveness of a proposed new standard is to carry out a programme of field- testing. Field visits alone are insufficient for this purpose but in the case of large and complex insurance undertakings, for example, should be sufficiently rigorous to enable them to support an adequate programme of field-testing. In the Discussion Paper IASB undertakes to make use of field-testing when appropriate. In relation to phase II of the insurance project however it is proposing to carry out field visits but not field tests. This is on grounds of cost. We believe that for all but the most straightforward standards field testing should be built into the development process, to ensure that proposed standards can be put into effect in a practical and cost-effective way, have the intended results and, in meeting the requirements of accounts users, are likely to reduce the cost of capital.

We note that concerns have also been raised over the Board's practice of proposing significant changes at a late stage in the deliberation process and its failure sometimes to re-expose these changes for comments. The Board should re-examine its criteria regarding re-exposure and listen more to the views of interested parties who will often be in a better position than the Board to determine the likely impact of such changes.

We also believe that there should be better co-ordination of IASB work, particularly where different advisory groups are involved. IASB should also give greater consideration to the interaction between international standards.

Major changes are required to rebuild IASB's credibility with users and preparers alike. In reviewing its deliberative process IASB has shown that it is aware of this.

Yours sincerely



Peter Vipond  
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