Investment Management Association

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toyre@iasb.org

Ms Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
30 Cannon Street
London, EC4M 6XH

Dear Ms Oyre

PART 2 OF THE CONSTITUTION REVIEW – PROPOSALS FOR ENHANCED PUBLIC ACCOUNTABILITY

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £3.4 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that in 2008 IMA members managed holdings amounting to 43% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in companies whose securities are traded on regulated markets. Therefore, we have an interest in the standards governing how such companies prepare their accounts and the governance and processes of the bodies that set those standards. Thus we welcome the International Accounting Standards Committee Foundation (IASCF) undertaking this constitutional review and giving us the opportunity to comment. We consider the Trustees have an important role in ensuring that the International Accounting Standards Board (IASB) follows due process and following the 2005 constitutional review, we welcomed the Trustees' oversight role being more formalised and enhancements to the IASB's processes.

We set out in the attached our comments on the detailed questions raised in the discussion document and below our main observations.

- The geographical formulation for the spread of Trustees should ensure that the IASB's and IASCF's processes and governance have credibility internationally. However, we are concerned that in reducing the flexibility of having Trustees

65 Kingsway London WC2B 6TD
Tel:+44(0)20 7831 0898 Fax:+44(0)20 7831 9975

www.investmentuk.org

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from any area from four to two, suitable users and preparers may not be appointed because they do not achieve the defined geographical diversity (question 5).

- The IASB/ IFRS Board should be expected to establish and maintain liaison with national standard-setters and other official bodies. But in liaising with prudential regulators, it should be borne in mind that investors and regulators have different requirements – accounting requirements operate to count the beans and report them to the markets. It is the role of regulators to determine capital adequacy requirements from the reported numbers. The procyclicality that many claim fair value is responsible for is addressed if the financial reporting requirements of listed companies and the prudential requirements of financial services firms are decoupled (question 8).

- Board members, other than the Chairman and Vice-Chairman, should be able to renew for a further three-years as opposed to the five currently allowed. Board members that serve for ten years can become too remote from the practical aspects of standards. Nevertheless this needs to be balanced with the fact that it can take a number of years to complete a particular project and to get up to speed on the relevant issues. Thus those that are part time should possibly be allowed to serve for a longer term than those who are full time.

  It is important that the Board has a mix of skills and expertise and operates with appropriate checks and balances. For example, currently the role of the chair and chief executive appear to be combined which runs against good governance practices. Whilst we do not believe that this has necessarily impaired the operation of the Board, the IASB could enhance its credibility with its stakeholders if it were to undertake a period board evaluation of its effectiveness (question 10).

- To amend the Constitution to specifically allow for a shorter consultation period than the 30 days allowed under an accelerated due process could result in such situations becoming more common place. This would concern us and we do not support the proposal. Moreover, if the IASB follows due process in consulting on its agenda and addresses the feedback received, it should reduce the need for emergency procedures (question 11).

- The IASB's agenda setting process should be more transparent to help secure the support of its stakeholders and guard against the politicisation of the standard setting process. Countries will have their own interests so the IASCF and IASB will always have times when they are exposed to such pressure. These will be more acute at times of crisis and a sound transparent process will help protect against it. Thus there is a broad consensus in the user community that there should be a formal public consultation on the agenda every three years and that this would give more legitimacy to the agenda setting process. The consultation should not only cover additions to the agenda but also the withdrawal of items (question 12).

Please contact me if you would like clarification on any of the points in this letter or the attached, or if you would like to discuss any issues further.

Yours sincerely

Liz Murrall
Director, Corporate Governance and Reporting

ANNEX

IMA RESPONSE TO PART 2 OF THE CONSTITUTION REVIEW – PROPOSALS FOR ENHANCED PUBLIC ACCOUNTABILITY

IMA's answers to the specific questions raised in the discussion document are set out below.

Question 1
The Trustees seek views on the proposal to change the name of the organisation to the 'International Financial Reporting Standards Foundation', which will be abbreviated to 'IFRS Foundation'.

The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board (IASB) as the International Financial Reporting Standards Board, which will be abbreviated to 'IFRS Board'. Do you support this change in name? Is there any reason why this change of name might be inappropriate?

IMA supports the IASC Foundation being renamed the 'International Financial Reporting Standards Foundation', abbreviated to 'IFRS Foundation' and mirroring this change by renaming the International Accounting Standards Board (IASB) the International Financial Reporting Standards Board. We consider this should help eliminate confusion particularly internationally in countries where English is not the mother tongue but would be concerned if this change was to result in an issue of brand loss.

Question 2
The Trustees seek views on the proposal to replace all references to 'accounting standards' with 'financial reporting standards' throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB—International Financial Reporting Standards (IFRSs). Do you support this change?

To be consistent with the above, we support references to 'accounting standards' being changed to 'financial reporting standards'. However, we would not support IAS being changed to IFRS. IAS were inherited from the IASB's predecessor and we believe that it is important that the distinction is retained in that over time they should be reviewed and replaced with IFRS.

Question 3
The Trustees seek views on their proposal to change section 2 as follows:

The objectives of the IASC IFRS Foundation are:
(a) to develop, in the public interest, a single set of high quality, understandable, and enforceable and globally accepted accounting financial reporting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of emerging economies and, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
(d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards (IFRSs, being the standards and interpretations issued by the IFRS Board) to high quality solutions.

Do you support the changes aimed at clarity?

IMA supports the development of high quality accounting standards that are applied consistently internationally and welcomes the fine-tuning of the objectives in a), b) and d). This should maximise the transparency and comparability of accounts for our members.

We also support the emphasis on helping 'participants in the world's capital markets and other users make economic decisions'; although in the interests of consistency, it would be helpful if the text accorded with that set out in the Conceptual Framework project on the objective of financial reporting. In addition, whilst we recognise that consideration may need to be given to 'the special needs of small and medium-sized entities' in that they are a special case, we consider that the IASB's main objective should be to develop a single set of high quality accounting standards that are applied consistently internationally and it should limit the number of carve outs – particularly for emerging economies. If those economies want to compete in the world's capital markets then they should adhere to the same standards.

IMA support principles based standards but agrees that an express reference to this does not necessarily fit naturally into the constitution. However, we do not believe it sufficient to leave this in the IASB's Due Process Handbook, in that it should be enshrined in the IASB's objectives. In this context, 'principles based' should be defined so that standards require clear outcomes that should be aimed for in financial reporting and mitigate manipulation for unacceptable results.

Question 4
The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:

The governance of the IASC/ IFRS Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18–23) shall provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they are empowered to may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.

Do you support this clarifying amendment?

IMA supports the clarifying amendments. We would reemphasise[1] that we consider it important that the Monitoring Board's governance arrangements are transparent and that there are checks and balances to prevent political interests exercising undue influence, and to guard against mission creep. Also we consider it important that the Board should not be able to influence the actual standard setting process in that if it were able to then its make-up would need to be reconsidered. Whilst, as stated in the discussion document, we recognise that it may not be appropriate for these matters to be included in the consitutional arrangements, we consider it important that they continue to be addressed.

Question 5
The Trustees seek views on the proposal to amend section 6 of the Constitution as follows to include one Trustee from each of Africa and South America:

All Trustees shall be required to show a firm commitment to the IFRS/IASC Foundation and the IFRS Board/ IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting financial reporting standards developed for use in the world's capital markets and by other users. The mix of Trustees shall broadly reflect the world's capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters.

In order to ensure a broad international basis, there shall be:
(a) six Trustees appointed from the Asia/Oceania region;
(b) six Trustees appointed from Europe;
(c) six Trustees appointed from North America;
(d) one Trustee appointed from Africa;
(e) one Trustee appointed from South America; and
(f) [tba] Trustees appointed from any area, subject to maintaining establishing overall geographical balance.

Do you support the specific recognition of Africa and South America?

IMA has supported the geographical formulation for determining the spread of Trustees in order to ensure that the IASB's and IASCF's processes and governance have credibility internationally. That said, we consider it is more important that trustees have professional competence and practical experience and are concerned that the flexibility of having Trustees from any area being reduced from four to two. The IASCF and IASB should have input from both the users and preparers of accounts and we would be concerned if suitable users or preparers failed to be appointed because they do not achieve the defined geographical diversity.

[1] IMA letter of 7 April 2009, Review of the Constitution - Discussion Document - Identifying Issues for Part 2 of the Review

As regards, the proposal to allow for representative Trustees from Africa and South America, we question whether this really reflects the geographical allocation of the global capital markets and consider it important that this is kept under review.

Question 6
The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairmen of the Trustees.

The Chairman of the Trustees, and up to two Vice-Chairmen, shall be appointed by the Trustees from among their own number, subject to the approval of the Monitoring Board. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman or a Vice-Chairman for a term of three years, renewable once, from the date of appointment as Chairman or Vice-Chairman.

Do you support the constitutional language providing for up to two Vice-Chairmen?

IMA supports the constitutional language providing for up to two Vice-Chairmen. We believe this will help the IASCF's engagement with and ability to influence politicians and other critics of the IASB.

Question 7
The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.

IMA welcomes the steps the Trustees have taken in recent years to enhance their oversight role and does not believe amendments are needed to sections 13 and 15. However, we would welcome the Trustees playing a greater role in assessing the IASB's effectiveness and in the agenda-setting processes, and they should demonstrate their review of the IASB's due processes in ensuring stakeholder input is duly considered.

Question 8
Section 28 would be amended as follows:

The IASB/ IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies concerned with an interest in standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards IFRSs.

Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?

IMA agrees that the IASB/ IFRS Board should, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other

official bodies. In improving and/or simplifying IFRS, the Board should work with standard setters round the world to achieve an internationally accepted outcome. At times we have been concerned that the Board's agenda has been too focused on convergence with the US and there could be diminished returns from further convergence due to the increased complexity in financial reporting.

We would also emphasise that the main focus of financial reporting should be on the holders of ordinary shares - they are the providers of the risk capital and bear the residual risk. In liaising with prudential regulators, we would highlight that investors and regulators have different requirements – accounting requirements operate to count the beans and report them to the markets. It is the role of regulators to determine capital adequacy requirements from the reported numbers. In this context, the procyclicality that many claim fair value is responsible for is addressed if the financial reporting requirements of listed companies and the prudential requirements of financial services firms are decoupled. Otherwise in providing at trough institutions will be overcapitalized at the peaks.

Question 9
The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board members to act as vice chairmen of the IASB.

IMA agrees with section 30 of the Constitution being amended to permit the appointment of up to two Board members to act as vice chairmen of the IASB. Currently, the responsibilities of the Chairman are onerous and this may help ease the work load.

Question 10
The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009. The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years. The proposed amendments to section 31 are as follows:

Members of the IASB IFRS Board appointed before 2 July 2009 shall be appointed for a term of up to five years, renewable once for a further term of five years.
Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term of up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman.
The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.

Do you support the change in proposed term lengths?

IMA agrees that Board members should be initially appointed for a term of five years, with the option for renewal for a further three-year term and that this should not

apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. We have been concerned that having board members that serve for ten years can mean that they become too remote from the practical aspects of standards both in terms of implementation and the usefulness of the information conveyed to users. Nevertheless this needs to be balanced with the fact that it can take a number of years - as many as five - to complete a particular project and to get up to speed on the relevant issues. Thus there may be a case for those that are part time to be allowed to serve for a longer term than those who are full time.

In this context, we consider it important that the Board has a mix of skills and expertise and operates with appropriate checks and balances. For example, currently the role of the chair and chief executive appear to be combined which runs against good governance practices. Whilst we do not believe that this has necessarily impaired the operation of the Board, the IASB could help its credibility with its stakeholders if it were to undertake a period board evaluation of its effectiveness.

Question 11
The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.

It was evident on 13 October 2008 that in deciding to suspend due process in changing IAS 39 and IFRS 7 to bring them into line with US GAAP and give greater flexibility in the application of fair value accounting, the IASB was under intense political pressure from the EU, as well as lobbying from others with vested interests.

Such pressures are not conducive to the development of the markets' confidence in financial reporting. Although the IASB's actions at the time were understandable, they set an unwelcome precedent. We consider it vital that the Board takes a resolute line in such situations and always seeks to follow due process and has a consultation of at least 30 days as allowed under the accelerated process. The events around October last year showed that the Trustees will in exceptional circumstances approve a shorter consultation period or no consultation period at all. We believe to amend the Constitution to specifically allow for this, as proposed, could result in such situations becoming more common place. This would concern us and we do not support the proposal. Moreover, if the IASB follows due process in consulting on its agenda and addresses the feedback received, it should reduce the need for emergency procedures.

Question 12
The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.

IMA welcomes proposals that the IASB should be required to consult the IASCF Trustees and the SAC on the agenda but would make the final decision. The effectiveness of this would depend on the intent of all three of the parties in this

regard - to hear concerns and to respond to them. If this works well, then there should be no need for a formal public process.

Nevertheless, we consider that if the IASB's agenda setting process was more transparent it would help it obtain the support of its stakeholders and guard against the politicisation of the standard setting process. Countries will always have their own interests so the IASCF and IASB will always have times when they are exposed to such pressure. These will be more acute at times of crisis and a sound transparent process will help protect them. Thus we believe there is a broad consensus in the user community that there should be a formal public consultation on the agenda every 3 years to give more legitimacy to the agenda setting process. The consultation should not only cover additions to the agenda but also withdrawing items.

Question 13
Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.

IMA welcomed the fact that the Trustees invited individuals from representative organisations, including investor organisations, to be members of the re-structured Standards Advisory Council to help inform the IASB and that IMA and ABI is represented. We also welcome the fact that the current composition has almost equal numbers of users and preparers represented. However, we question whether there needs to be as many regulators and standard setters on the Council in that it would be preferable if more users and preparers were represented. Moreover, we consider that the Council would be more effective is there was more formalised feedback to the IASB what had been agreed and the Board reported back on how it is/is proposing to address the points raised.

Question 14
The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term 'the senior staff management team'. Accordingly section 49 should be deleted.

The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.

IMA supports section 48 being amended and specific staff titles being replaced with the term 'the senior staff management team' and deleting section 49. As a matter of good practice all senior posts should be advertised in view of the important role senior staff play.

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