

7 April 2009

constitutionreview@iasb.org

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

Dear Ms Oyre

**REVIEW OF THE CONSTITUTION - DISCUSSION DOCUMENT
IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW**

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 2007 IMA members managed holdings amounting to 44% 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.

IMA welcomes the International Accounting Standards Committee Foundation (IASCF) undertaking this constitutional review and giving us the opportunity to comment. IMA considers that the IASCF's 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.

One of our main concerns remains that few individuals with investment experience are included in the IASCF's constitutional arrangements. IMA considers that, as the providers of the risk capital and bearers of the residual risk, the primary audience for accounts is the holders of ordinary shares and as such, we would like to see more individuals with investment experience being appointed as Trustees and being involved with the Constitutional arrangements. Moreover, as investor representatives would be in the minority amongst the Trustees, it is important that

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

www.investmentuk.org

they are able to influence the governance and oversight arrangements, as well as the IASB's pronouncements, given the importance of these matters to the user community. We consider this would strengthen the IASCF's standing and effectiveness, and facilitate investors' acceptance of IFRS.

We set out in the attached our answers to the questions raised and specifically highlight our main points below.

- The IASB's main objective should be to develop a single set of high quality accounting standards that are applied consistently internationally - if emerging economies want to compete in the world's capital markets then they should adhere to the same standards (question 1).
- The IASB's emphasis on convergence with US GAAP has given us concerns in that it became the key driver and led to a focus on the "key issues" in IFRS and US GAAP where neither worked properly and meant that outcomes were pre-judged. The IASB should set high quality standards and if current IFRS is better then the IASB should maintain the difference and it should be US GAAP that changes (question 4).
- We support the creation of a Monitoring Group/Board to establish public accountability but its governance arrangements should be transparent and there should be checks and balances to prevent political interests exercising undue influence, and to guard against mission creep (question 5).
- We support the geographical diversity of the Trustees but would be concerned if suitable users or preparers were not appointed because they did not achieve the defined diversity (question 6).
- It is important that the IASCF establishes sustainable funding that does not infringe on the IASB or its independence - funding is still in part through voluntary contributions and financial pressure could compromise the independence of the IASB's decision-making processes (question 8).
- A formalised fast track procedure is needed to address urgent changes in that the complex changes made late last year, without due process, could have unintended consequences, and risk damaging the convergence process and a rush to the bottom in terms of standards (question 10).
- It would be helpful if the Standards Advisory Council received more feedback from the IASB as to its proposals in relation to the matters discussed (question 12).

Please do 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

IMA RESPONSE TO DISCUSSION DOCUMENT - REVIEW OF THE CONSTITUTION

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

OBJECTIVES OF THE ORGANISATION

The Constitution defines the organisation's primary objective to: develop, in the public interest, a single set of high quality, understandable and enforceable global accounting 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. In fulfilling that objective, the organisation is to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies.

Q1 Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?

IMA supports 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.

Q2. In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?

IMA agrees it is important that standards are drafted based on clear principles and as such, this should be enshrined in the Constitution. We do not believe it would be possible to progress global accounting standards if every conceivable issue had to be covered by a rule. A principle-based system plays to common sense, good judgement and the taking of responsibility, and should underpin the integrity and the reliability of the capital markets. In particular, for some time we have been concerned whether the convergence with US GAAP would drive IFRS to become more rules based - including a commitment to draft standards based on clear principles in the Constitution, helps clarify that this would not be the case.

The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB develops financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector

companies, partly because of the need to set clear priorities in the early years of the organisation.

Q3. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.

Although not-for-profit entities and the public sector are strictly outside the IMA's remit, we would be concerned should the IASB extend its work in this way given its limited resources.

There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASCF already recognises the need to have close collaboration with accounting standard-setting bodies.

Q4 Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?

IMA considers that the existing arrangements whereby the IASCF collaborates with other organisations that establish standards is sufficient such that the Constitution does not need to be amended to allow it to become closer. As noted above, the IASB's role should be to develop a single set of high quality accounting standards that are applied consistently internationally. In this context, certain aspects of the IASB's approach to standard setting, in particular its emphasis on convergence with US GAAP has given us concerns in the past. Convergence has been seen as the key driver and has led to a focus on addressing the "key issues" in IFRS and US GAAP where neither work properly and has meant that outcomes have been pre-judged. IFRS 8, *Operating Segments*, was one example where investors' concerns were set aside and in effect, a US standard was adopted unilaterally in the interests of convergence.

Moreover, as set out in the covering letter, we were disappointed that the current review does not appear to cover the role of investors as providers of long-term capital to the global capital markets. There should be mechanisms to ensure that investors, as the primary users of accounts, are properly represented in the governance framework and in the standard setting process itself. Investors, not preparers or auditors, must be recognised as the key stakeholders in the area of accounting – putting their trust in the hands of the standard setters to ensure the quality, relevance and appropriateness of those standards.

In summary, the IASB's governance arrangements should be to promote the independence of the standards-setting process while being responsive to genuine concerns of investors as the primary users.

GOVERNANCE OF THE ORGANISATION

The first part of the review of the Constitution proposed the establishment of a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees.

Q5 Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.

In principle, IMA supported the creation of a Monitoring Group/Board in order to create a direct link of public accountability to official institutions and on this basis consider that the language of section 3 should be modified to reflect its creation and proposed role. In particular, we consider it important that the Board's governance arrangements are transparent and that there are checks and balances to prevent political interests exercising undue influence over the Board and to guard against mission creep – we believe that the Board's role should be limited to monitoring the IASCF's operations and not those of the IASB. In this context, we are concerned that the European Commission has not signed the Memorandum of Understanding for the Monitoring Board.

TRUSTEES

Q6. The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

IMA agrees with the geographical formulation for the appointment of the Trustees. That said, for the IASCF's governance arrangements to be accepted internationally they need 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 did not achieve the defined geographical diversity.

Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASCF activities.

Q7. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.

IMA has no specific comments on Sections 13 and 15 and welcomes the steps the Trustees have taken to enhance their oversight role.

The Trustees are responsible for ensuring the financing of the IASCF and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress in the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see <http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>) However, the Trustees have no authority to impose a funding system on users of IFRSs.

Q8. The Trustees would welcome comments on the progress and the future of the organisation's financing.

IMA welcomed the steps taken in late 2007, when the IASCF decided to instigate a new funding system for 2008 and beyond, and to seek to share the burden globally between a diverse range of sources from the global capital markets. However, we are concerned that the IASC Foundation and the IASB are still funded in part through voluntary contributions. We believe that for IFRS to have credibility, the IASCF needs to establish sustainable funding that does not infringe on the IASB or its independence and that this needs to be built in clearly and firmly. Whilst we recognise that the Trustees have no authority to impose a funding system on users of IFRSs, we have concerns that with the current arrangements, financial pressures could compromise the independence of the IASB's decision-making processes.

INTERNATIONAL ACCOUNTING STANDARDS BOARD

Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'.

Q9. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.

IMA has concerns as to how the IASB sets its agenda and work plan. In particular, there are certain areas that the IASB is planning to address which we do not believe merit attention and other areas where we believe the standards need to be improved but which are not a priority. Provided the IASCF has appropriate representation of users, we consider it should involve itself more with process whereby the IASB sets its agenda and priorities and that the IASB should set its agenda in consultation with its major stakeholders.

The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook.

Q10. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.

IMA welcomes some of the steps taken in recent years by the IASCF and the IASB to improve the process of setting standards, such as the introduction of feedback statements and other improvements in the IASB's due processes, and efforts to develop outreach and communications.

Q11. Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?

IMA acknowledges that the IASB's decision on 13 October to give greater flexibility in accounting for financial assets at fair value, bringing IFRS into line with US GAAP, was a pragmatic response to pressure from the EU and was preferable to rules being written by the EU Commission. However, it is an unwelcome precedent and concerned us in that:

- the amendment was made without due process – the trustees that oversee the IASB suspended this and no comments were sought from investors;
- it was the first step in the politicisation of the standard setting process;
- the EU does not necessarily operate the same enforcement mechanisms as the US to review when reclassifications are made out of fair value; and
- the changes were to be applied retrospectively with effect from 1 July 2007 meaning that banks will know the position and can avoid marking to market their quarter three assets.

Asking for changes to such complex areas in such a condensed time frame could result in unhelpful reporting and have unintended consequences. These measures also risk damaging the whole process of convergence in that in adopting some of the worst features of a US standard, features for which the US is often criticised, the IASB risks a rush to the bottom in terms of standards and less transparent reporting to investors. If current IFRS is better then the IASB should maintain the difference and it should be US GAAP that changes. In conclusion, we consider it important that a formalised fast track procedure is created for changes that are needed as a matter of urgency.

STANDARDS ADVISORY COUNCIL

Q12. Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

IMA welcomes the fact that the Trustees invited individuals from representative organisations, including investor organisations, to apply for membership of the re-structured Standards Advisory Council to help inform the IASB. 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.

Q13. Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?

IMA does not consider that there are elements of the Council's the terms of reference that need to be changed. However, it would be helpful if the Council received more feedback from the IASB as to how the matters discussed are to be considered/addressed by the Board.

OTHER ISSUES

Q14. Should the Trustees consider any other issues as part of this stage of their review of the Constitution?

IMA has no other matters to note other than set out elsewhere in this response.