

Review of the Constitution

The ABI's Response to the IASCF's consultation, Identifying Issues for Part 2 of the IASCF review

Introduction

1. The ABI is the voice of the insurance and investment industry in the UK. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.
2. The ABI is grateful to the International Accounting Standards Committee Foundation (IASCF) for the opportunity to respond to its invitation to comment on its discussion document, *Review of the Constitution: Identifying Issue for Part 2 of the Review*.

ABI comments

3. We welcome the IASCF taking the initial step of consulting first on the issues on which Part 2 of the review should focus. And we agree mostly with the selection of issues and a number of the IASCF's preliminary comments.
4. We especially support the retention in the Constitution of the primary objective of providing accounts that "help participants in the world's capital markets and other users make economic decisions". However, we would assert the primacy of the investor interest and highlight that of shareholders as suppliers of equity risk capital and to whom, as owners, companies are accountable. We consider that the Constitution should be clarified accordingly. Further, though the Standards Advisory Council has recently been refocused, we note that there are still far too few investor representatives compared particularly with those of regulators.
5. Correspondingly, we advise caution in taking any steps that might conflict with the primary objective. Possible sources of risk to the IASB's independence as an accounting standard setter may come from the Monitoring Board's composition and its relationship to the IASB, and from funding. We think that longer-term independence and legitimacy will be better served by the IASB having a grounding in international law.
6. On the IASB's processes, we have two main comments. Firstly, we consider that there should be full public consultation on the IASB's agenda. Secondly, we agree that the IASB should have a fast-track procedure, though one that

retains the quality objective through consultation that is abbreviated only by time and not in scope, and through accelerated post-implementation review.

7. We expand on these comments, and give others, in the annex to this letter.

Association of British Insurers
March 2009

Questions for consultation

Objectives of the organisation

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?

The Constitution sets out the primary objective of providing accounts that “help participants in the world’s capital markets and other users make economic decisions”. We would assert the primacy of the investor interest and highlight that of shareholders as suppliers of equity risk capital and to whom, as owners, companies are accountable. Indeed, the Board’s reporting requirements, particularly for the balance sheet reflect an especial focus on equity. We suggest that the Constitution should be clarified accordingly.

We suggest further that the Constitution should note that the needs of a number of other stakeholders may be met by other means – e.g., the needs of management by internal financial reporting processes, of banks by making the supply of information a contractual obligation, and of regulators by their legal powers to require information.

The Constitution is “to take account, as appropriate, of the special needs of small and medium-sized entities and emerging economies”. The first, SMEs, is met through the development of standards for (as re-named) ‘non-publically accountable entities’ (NPAEs). It is not clear how the second is to be satisfied, perhaps other than through field-testing.

Q2 Should the Constitution make specific reference to the emphasis on a principle-based approach?

We agree that the Constitution should specifically emphasise the need for principles-based approaches.

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

We do not agree with the extension of the IASB's standards to not-for-profit entities and the public sector. These entities' different objectives may lead to different requirements in practice. For the IASB to widen its scope in this way would be to distract from its current objectives and the resulting additional pressures may diminish its ability to deliver against its current objectives.

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?

We are not aware of the current Constitution being an impediment to appropriate collaboration with other organisations with compatible objectives.

We note that some commentators have suggested a need for the IASCF to work closely with regulators who have responsibility for financial stability and systemic risk and, indeed, that, as well as regulators of securities, the Monitoring Group should include regulators of other sectors, such as the IAIS. We disagree because financial stability is not a primary purpose of financial reporting. Indeed, on this basis, we do not think it appropriate that a Basle representative has observer status on the Monitoring Board, as representing only the banking industry.

Governance of the organisation

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.

We accept the establishment of a Monitoring Board in response to concern that there needs to be a clearer public interest perspective, and we agree that this needs to be reflected in the Constitution. However, we consider it to be only an interim solution. We think that longer-term independence and legitimacy will be better served by the IASB having a grounding in international law.

We take the opportunity, however, to emphasise our view that the public interest is not the same as facilitating politicisation of the standards setting agenda or processes, nor does it imply giving room to a regulatory focus in standard-setting. The Monitoring Board's role needs to be limited in extent and precisely defined.

By limited, we mean that the Monitoring Board's role should be to oversee the IASCF, not the IASB. Precise definition would exclude roles suggested by others such as that the Monitoring Board should actively resolve the issues inherent in the need for public accountability. What this would look like is not

really explained. But we understand that the Monitoring Group might be charged with actively reducing or eliminating divergence in IFRSs. We would not support this expansion of the role of 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?

We recognise the need for geographical diversity for what is an organisation with a global remit and that there need to be safeguards to ensure that Trustees are representative of the global constituency. However, this needs to be balanced against the overriding need to ensure that the Trustees have the right skills and relevant experience.

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

On Section 13, we are surprised at the inclusion among the Trustees' duties of so specific an operational duty as to "review in due course the location of the IASCF". Such a factor should be part of any periodic review of the IASCF/IASB's effectiveness.

On Section 15, we suggest that the duties described together in sub-paragraph (e) do not actually belong together – "review broad strategic issues affecting accounting standards", and "promote the IASCF Foundation and its work", and "promote the objective of rigorous application of [IFRSs]". They should be separated. Further, perhaps the duty to review broad strategic issues affecting accounting standards needs to be brought together with the duty in sub-paragraph (c) to review the strategy of the IASCF Foundation and the IASB. However, we suggest that the IASB's agenda might better be considered by the IASCF trustees twice a year rather than annually.

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

The objectives for the organisation's funding should be that it is sufficient for the purpose and is predictably and reliably so, that it is obtained without undue costs, and that it is drawn from those who benefit from the organisation's outputs but without compromise to its independence. There may be a number of ways to achieve these objectives, though we commend the approach newly taken by the Financial Reporting Council (the FRC) in the UK. The FRC draws most of its funding from preparers of financial statements (substantially via a levy on listed companies) and from the accountancy profession – (professional bodies and accountancy firms).

International Accounting Standards Board

Q9 The Trustees 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.

We consider that the IASB's agenda-setting process needs to be improved. In particular, we suggest that it should include full public consultation, and that this should cover what is on, or may be on, the IASB's various agendas, but also the priorities to be given. Correspondingly, the IASB needs to be able to be responsive in allocating its resources.

Q10 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*.

The IASB is already a relatively open and transparent organisation, certainly in a formal sense. We do not think striving to further enhance the formality of transparency will achieve worthwhile benefits. Rather, we think the emphasis should be on the substance of being responsive and open to dialogue. In most respects the IASB and its staff members already achieve this. What is needed is for the corporate culture to reinforce and embed this objective into the IASB's working practices, and we welcome their recent step-change in the level and quality of their engagement with stakeholder. Emphasising compliance with the formality of due process may achieve much less.

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?

Yes. Recent events have shown that, although especially a challenge for a global body, there does need a separate 'fast track procedure'. We see this as being a process of abbreviated due process, perhaps involving a sub-committee of the Board augmented by others in some circumstances, though one that still consults as widely. We suggest that the risk to quality could be addressed through an accelerated form of post-implementation review. Such a review should look not just at whether the fast-track procedure achieved its immediate aims but also whether the result works using wider criteria.

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?

We support the recent changes to the SAC. However, we believe further changes are needed:

- To increase considerably the representation of investors, currently still very low, and to reduce that of regulators;
- To make the process of engagement two-way between the IASB/IASCF and the SAC – currently, there is too little feedback to the SAC, which appears to be uncertain that its voice is really heard.

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?

It's not clear that it is appropriate for the SAC to have as a secondary objective to support the IASB in the promotion and adoption of IFRSs throughout the world. This objective would seem to be better suited to the IASCF and the IASB.

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

We support the IASB's carrying out of field-testing, so that it is as clear as possible:

- whether there are any implementation issues, including cost;
- if there are any unintended consequences; and
- what the benefits are to investors.

We do not see field-tests as being the equivalent of impact assessments, nor do we support the IASB carrying out the latter. This is because we see impact assessments as wider economic objectives; including, for example, any impact on regulatory objectives. By contrast, the IASB's field-testing is quite properly narrower, focusing essentially on the feasibility/cost to preparers and the benefit to investors. A good current example of such field-testing being carried out in the IASB's financial statements presentation project.