Investment Management Association

10 January 2008

Comment letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Sirs

Exposure Draft of Proposed Improvements to International Financial Reporting Standards

IMA is the trade body representing the UK asset management industry. IMA members include independent fund managers, the asset management arms of retail banks, life insurers, investment banks and occupational pension scheme managers. They are responsible for the management of approximately £3 trillion of funds (based in the UK, Europe and elsewhere), including institutional funds (for example, pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, our members manage 99% of UK-authorised investment funds.

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 requirements governing how such companies prepare their accounts and the information disclosed to our members as the ultimate owners of companies and users of that information.

IMA welcomes the IASB's objective as stated in the introduction to the Exposure Draft in that the 'annual improvements project' aims "to provide a streamlined process for dealing efficiently with miscellaneous, non-urgent, but necessary minor amendments to IFRS[1]". Changes to standards, however small, are time-consuming for both the Board and its stakeholders. Issuing minor amendments under the 'annual improvements project' in one exposure draft, once a year, focusing on areas of inconsistency or where clarification of the text is required should ease the burden for all concerned. That said, we do not believe that all the amendments proposed are necessarily minor in that a number could result in major changes in practice and could have a significant effect on annual reports. In particular, we have concerns about three of the proposals as set out below.

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

www.investmentuk.org

1. Issue 4: Statement of compliance with IFRS.

The IASB is proposing to amend IAS 1 to require specific disclosures on the extent to which financial statements are presented in accordance with IFRS and how the position would be different if IFRS had been complied with in full.

We believe this raises wider issues and should not be simply part of the 'annual improvements project' for the following reasons:

- it is important that entities disclose the accounting polices used in preparing financial statements and the IASB should first consider whether the existing disclosure requirements in this respect are implemented correctly or whether they need to be enhanced before it considers adding new requirements;
- the underlying logic to the proposal is confused – as pointed out by the two dissenting Board Members - an entity that already does not comply with IFRS would not be likely to feel bound by this requirement, and such a requirement is tantamount to condoning non-compliance with IFRS and could undermine their credibility; and
- not all jurisdictions adopt or endorse IFRS at the same time meaning that entities from certain jurisdictions may not be able to adopt changes at the same time as the IASB's effective date. It could be confusing and unnecessarily complicated if this resulted in an entity having to state that in certain years it prepared its financial statements in accordance with IFRS and in other years it had not.

In conclusion, we consider that the IASB should focus on developing international accounting standards that are recognised as being superior and high quality. It should set standards that preparers and users would prefer to use, that worldwide standard setters wish to move towards, which are cost-effective and which will be fully compiled with.

2. Issue 28: Advertising and promotional activities.

IAS 38 requires expenditure on advertising or promotional activities, training and start-up activities to be recognised as an expense as incurred. The IASB proposes clarifying "as incurred" and allowing an entity to recognise prepayments of such expenditure as an asset until it has access to the goods or has received the services in which instance they should be expensed.

Although in principle we agree that expenditure on advertising and promotional materials should be expensed when the entity has access to the goods or has received the services, we consider that given this amendment's potential impact, it should be subject to a separate consultation and not be part of a package of 41 amendments.

3. Issue 30: Definition of a derivative.

The IASB is proposing to amend the definition of a derivative in IAS 39 so that it no longer excludes contracts linked to non-financial variables that are specific to a party to the contract. Originally such contracts were excluded so that contracts within the scope of IFRS 4 were not also caught by IAS 39. However, the IASB has now concluded that paragraph 2(e) of IAS 39 already provides this exclusion.

We consider that the changed definition of a derivative in IAS 39 could apply to a wider range of contracts than those that fall within the scope of IFRS 4, for example, management fee arrangements linked to the fair value of the underlying property or other assets being managed could be caught. We do not believe that it is possible to identify these from the IASB's analysis, and thus it is difficult to assess what will or will not meet the definition of a derivative. On this basis, IMA does not consider that this amendment should be made a part of the 'annual improvements project' and should be subject to a more thorough consultation so that the implications can be fully assessed.

IMA does not believe that the issues above are clear-cut and considers that they go beyond the agreed scope of the 'annual improvements project'. That said, although there was not universal support from the Board for *Issue 4: Statement of compliance with IFRS* and *Issue 28: Advertising and promotional activities*, we do not consider that the existence of alternative views should necessarily preclude a proposed amendment being included in an annual improvements exposure draft. Provided due process is followed during the project and alternative views are presented, then we believe minor and non-urgent changes should still be able to be included in an annual update of standards even if they do not receive universal support.

I trust that the above is self-explanatory but please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours faithfully

Liz Murrall
Senior Adviser – Corporate Governance