Investment Management Association

29 October 2004

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Ms Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Ms Pryde

**ED 7 – Financial Instruments: Disclosure**

The IMA is the trade body representing the UK asset management industry. IMA Members include independent fund managers, the asset management arms of banks, life insurers, investment banks and occupational pension scheme managers. They are responsible for the management of approximately £2 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 have an interest in financial reporting and the standards that govern how accounts are prepared from two perspectives:

- as major investors in companies whose securities are traded on regulated markets, we have an interest in the requirements governing how such companies prepare their accounts and the information disclosed to our Members as users; and
- as managers of collective investment schemes (CIS), we have an interest in accounting standards both as preparers of funds' accounts and from the perspective of our Members' clients as investors.

We welcome the fact that EU listed companies will be required to prepare their consolidated accounts in accordance with a single set of accounting standards from 2005. The introduction of IAS into UK GAAP also means that improvements are being made which are long overdue, in that certain existing standards are quite old and need updating.

From the perspective of our Members as major investors in companies, we welcome the new draft IFRS incorporating the disclosures presently contained in IAS 32, *Financial*

*Instruments: Disclosure and Presentation,* so that all financial instrument disclosures are in one standard. We also support:

- additional qualitative and quantitative disclosures on the risks arising form financial instruments; and
- new disclosures about entities' management of their capital resources.

These disclosures will help to maximise the transparency and comparability of accounts for our Members as users and to maintain the quality of financial reporting. In this respect, although it is proposed that the revised disclosure requirements are implemented for accounting periods beginning on or after 1 January 2007, we strongly support earlier adoption in 2005. Failure to do so could mean that entities would have to change the format of their accounts twice. Repeated changes to accounts from one year to the next and inconsistencies in disclosures between different entities' accounts would result in non-comparable accounts and would limit their usefulness to our Members. Furthermore, paragraphs 43 and 44 set out proposals for a sensitivity analysis for each type of market risk. We have reservations that, as currently drafted, the IFRS does not reflect fully the complexities of this and the fact that moving one variable will undoubtedly affect others and that a more sophisticated model is needed.

However, from the perspective of our Members as preparers of authorised CIS' accounts and of investors as users of these accounts, we believe that there should be exemptions from certain of the requirements. Authorised CIS are regulated and the regulations include detailed requirements for disclosure of information to both prospective and existing investors. For example, the prospectus sets out investment objectives and policy, and the interim and final reports include a detailed portfolio statement. The audit covers the portfolio statement.

An investor in an authorised UK equity fund knows that he is exposed to UK equities, and an investor in an authorised global fund knows that he is exposed to global markets. They choose to be exposed to these risks with the intention of benefiting from their exposure. The reports investors receive provide details of the investments held and their performance. Against this background, certain proposals in the draft IFRS seem to be misplaced for authorised funds and we believe that the scope should be amended to reflect this. We would be happy to discuss with you further the existing disclosure requirements of the authorised CIS sector. The particular requirements in the draft IFRS from which we consider authorised CIS should be exempted are set out below.

- *Paragraphs 43 and 44 (question 3), sensitivity analysis.* For an entity that has an exposure to market risk arising from financial instruments, the draft IFRS proposes to require disclosure of a sensitivity analysis.

  In this respect, an authorised CIS prospectus is required to detail the markets and securities in which the CIS is to invest, together with other relevant information. In addition, both the annual and interim accounts are required to include a portfolio statement that details exposures. Thus, users can currently evaluate the nature and extent of market risk. Furthermore, we believe that in many instances a sensitivity analysis for an authorised CIS would be meaningless. For example, for a CIS invested solely in UK equities, a 1% move in the UK stock markets could be expected to move the CIS net asset value by around 1%.

- *Implementation guidance (question 8).* The draft implementation guidance accompanying the draft IFRS suggests possible ways to apply the risk disclosure requirements in paragraphs 32-45.

  We consider that certain aspects of this guidance are inappropriate for authorised CIS. For example, paragraph 34 (a) suggests that for each risk from financial instruments reports should disclose " the exposure to risk and how it arose".

  Investors in authorised CIS invest to gain exposure to certain markets and securities in order to benefit from their potential growth and/or income prospects. Thus, a global fund will have exposure to different markets and different currencies. The relevant details are already contained in the interim and final reports.

Please contact us 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

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