

24 February 2011

strategyreview-comm@ifrs.org

IFRS Foundation Trustees
30 Cannon Street
London
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Dear Sirs

STATUS OF THE TRUSTEES' STRATEGY 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 2009/10 IMA members managed holdings amounting to 40% 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 IFRS Foundation Trustees undertaking a review of strategy and giving us the opportunity to comment. The Trustees have an important role in ensuring that the International Accounting Standards Board (IASB) follows due process and we welcomed the steps taken to formalise their oversight role and enhance the IASB's processes. We note that the Monitoring Board also recently issued a consultation on the Foundation's governance covering the composition, and respective roles and responsibilities of the IASB, the Foundation and the Monitoring Board. We consider undertaking two such similar consultations at the same time runs the risk of a certain amount of duplication in the responses received or matters being included in only one response when they could be relevant to the other. It would have been helpful if these had been better co-ordinated in one consultation document and if the responses were addressed together in any feedback.

One of our main concerns remains that few individuals with investment experience are included in the IFRS Foundation'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 a refocus on

investors in the constitution and more individuals with investment experience appointed as Trustees. Moreover, as investor representatives would be in the minority amongst the Trustees, it is important that 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 Foundation's standing effectiveness, and facilitate investors' acceptance of IFRS. We set out in the attached our comments on the specific areas highlighted and 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. We welcomed the constitutional changes last year such that convergence is a strategy aimed at promoting and facilitating the adoption of IFRS, but not an objective by itself. We have had concerns that at times too much of the IASB's work concentrated on ensuring convergence with US GAAP. Whilst the acceptance of IFRS by the SEC is important, the focus on convergence at all costs consumed resources that could have been used in the development of high quality standards.
- Investors and regulators have different requirements. Accounting requirements operate to count the numbers and report them to the markets - investors value transparency. It is the role of regulators to determine capital adequacy requirements from the reported numbers. The procyclicality that many claim accounting 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 peak.
- Accounting and assurance requirements are interlinked and consideration should be given to bringing the international standard setters for both accounting and auditing requirements together under the same umbrella.
- The structure of the Monitoring Board, IFRS Foundation and the IASB remains appropriate in that it separates the oversight and funding from the technical role of setting standards. It is important that the Monitoring Board has transparent governance and checks and balances to prevent political interests exercising undue influence and to guard against mission creep – its role should be limited to monitoring the Foundation's operations and not those of the IASB. Moreover, the current composition of the Monitoring Board may not be optimum and consideration should be given to rotating membership as more countries sign up.
- The conceptual framework should be progressed and made more of a priority. It provides important guidance for reporting transactions that are not dealt with in IFRS and pulls the standards together, for example, certain issues such as recycling should be decided at the conceptual level first.
- Quality of implementation is just as important as the standards themselves. As part of this strategic review it needs to be considered how the IASB can ensure consistent application internationally. The IASB may not necessarily assume responsibility but should be involved in establishing the framework, in that there needs to be a globally co-ordinated approach. Currently there is no infrastructure that will ensure this which could defeat the whole purpose of a global set of standards.
- It is vital that sustainable funding is established 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. A possibility could be for the standards to be issued under some form of licence so that those that apply them pay a fee. This would have been difficult at the outset as in interests of establishing itself, the IASB operated as an open source, but it may be time to reconsider this.

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 faithfully




Liz Murrall
Director, Corporate Governance and Reporting

IMA RESPONSE TO CONSULTATION - THE STATUS OF TRUSTEES' STRATEGY REVIEW

IMA's comments on the specific areas highlighted are set out below.

Mission: How should the organization best define the public interest to which it is committed?

- 1. The current Constitution states, "these standards (IFRSs) should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions."***

IMA supports the mission in the current constitution – the IASB's focus should be on developing high quality accounting standards that ensure comparability globally. We welcomed the constitutional changes last year such that convergence is now a strategy aimed at promoting and facilitating the adoption of IFRS, but not an objective by itself. We have had concerns that at times too much of the IASB's work concentrated on ensuring convergence with US GAAP. Whilst the acceptance of IFRS by the SEC is important, the focus on convergence at all costs consumed resources that could have been used in the development of high quality standards. Moreover, the development by the IASB and FASB of a common conceptual framework to form the basis for the future direction of financial reporting is welcome in principle, but there may be a risk of US domination of the process, given its strong representation on the Foundation and the IASB.

We would also welcome a refocus on investors; preferably on current shareholders in that they are the providers of the risk capital and bearers of the residual risk. Accounts should be prepared so as to provide them with the information they need for the purposes of deciding to buy, sell or hold their shares and to help them fulfill their responsibilities as owners – assessing company management and the strategies adopted for the longer term. Other stakeholders, such as creditors – including purchasers of traded debt - employees, bankers, customers and suppliers are protected by contractual and other rights that are not shared by shareholders. If shareholders' needs are satisfied, then we believe the needs of other external users should be also.

- 2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?***

IMA considers that investors and regulators have different requirements. Accounting requirements operate to count the numbers and report them to the markets. Investors want to know what a company is worth today and value transparency. It is the role of regulators to determine capital adequacy requirements from the reported numbers. Capital requirements should operate to smooth cycles - tighten requirements when conditions appear benign and credit in the system has grown and ease them when the pain has been taken. The procyclicality that many claim accounting is responsible for is addressed if the financial reporting requirements of listed companies and the prudential requirements of financial services firms are decoupled. Otherwise, regulatory requirements which force banks to have "adequate capital" at the trough of the cycle could lead to them being over-capitalized at the peak.

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On this point, given that accounting and assurance requirements are interlinked, the possibility of international standard setters for both accounting and auditing requirements being brought together under the same umbrella should be considered. This would also help maintain the integrity of the "corporate reporting brand".

Governance – How should the organization best balance independence with accountability?

3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

IMA considers the three-tier governance structure of the Monitoring Board, the IFRS Foundation Trustees and the IASB remains appropriate in that it separates the oversight and funding functions from the technical role of the standard setter.

4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

IMA supported the creation of a Monitoring Board in order to create a direct link of public accountability to official institutions. It is vital that the Monitoring Board has clear and separate responsibilities from the IFRS Foundation and from the IASB. It is also important that its 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. Its role should be limited to monitoring the Foundation's operations and not those of the IASB

Moreover the current composition of the Board may not be optimum and consideration should be given to rotating membership as more countries sign up.

Process – How should the organization best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

IMA welcomes the recent improvements to the consultative process such as the introduction of feedback statements and efforts to improve outreach and communications – the outreach undertaken during the development of IFRS 9 was commendable. Going forward we support a public consultation on the strategy and work plans at least once in every three years or more frequently if necessary.

It is important that adequate time is allowed for consultation and the bigger the topic or greater the impact the longer consultation time is needed. There should be more field

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testing of proposals by market participants to ensure they are practical and improve the information given to users. In this context, practical examples of the impact of proposals would assist users in understanding the proposed changes.

Lastly, the conceptual framework should be progressed and made more of a priority. It provides important guidance for reporting transactions that are not dealt with in IFRS and pulls the standards together, for example, certain issues such as recycling should be decided at the conceptual level first. It is also clear that not one size fits all in terms of accounting requirements and although the main focus had been on the listed company sector and particular industries, there may a need to consider sectors outside this, such as accounting in mutual funds, which do not easily fall within the IFRS framework, and the not-for-profit sector.

6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

Quality of implementation is just as important as the standards themselves. As part of this strategic review it needs to be considered how the IASB can ensure consistent application internationally. The IASB may not necessarily assume responsibility but should be involved in establishing the framework, in that there needs to be a globally co-ordinated approach. Currently there is no infrastructure that will ensure this which could defeat the whole purpose of a global set of standards.

Financing – How should the organization best ensure forms of financing that permit it to operate effectively and efficiently?

7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

IMA welcomed the steps in late 2007 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 IFRS Foundation and the IASB are still funded in part through voluntary contributions. For IFRS to have credibility the Foundation needs to establish sustainable funding that does not infringe on the IASB or its independence and 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 IFRS, we have concerns that with the current arrangements, financial pressures could compromise the independence of the IASB's decision-making processes. A possibility could be if the standards were issued under some form of licence so that those that apply them pay a fee. This would have been difficult at the outset as in interests of establishing itself, the IASB operated as an open source, but it may be time to reconsider this.

Other issues

We continue to emphasise the importance of investors as providers of long-term capital to the global capital markets and as the primary users of accounts, being 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.