

## **Review of the IASCF constitution: Identifying issues for Part 2 of the review**

### **Submission by the Association of Investment Companies**

The Association of Investment Companies (AIC) remains concerned that the development of international accounting standards, while welcome in principle, does not always achieve optimum market transparency. Investment company reports, for example, are becoming increasingly lengthy and overly technical. Feedback from investors indicates that accounting treatments required under IFRS can end up obscuring information which shareholders find important rather than making the position of the company clearer.

The review of the IASC Constitution provides an opportunity to take a step back and consider adjusting the governance of the IASB to support a more effective standards setting regime. The work of the IASB to date has successfully established a framework of international cooperation and standardisation. The IASC Constitution should seek to make the results of this activity more attuned to the needs of market participants making investment decisions

The AIC's main **recommendations** are that:

- The investor viewpoint should be placed at the heart of the standards setting process. This should involve making changes to the primary objectives of the IASC Constitution and requiring a greater representation of investors on the Board of Trustees.
- The Board of Trustees should ensure that international accounting standards are set according to established principles of good regulation. That is, ensuring that they are: targeted on identified problems, proportionate in relation to the perceived problem, accountable to key stakeholders, and consistent. Applying this discipline will ensure that resources devoted to standard setting and company reporting are expended effectively. These principles of good regulation should be embedded in the IASC Constitution.
- The development of common standards should not be achieved at the expense of allowing legitimate diversity in the preparation of accounts. Banks, for example, will face different issues from, say, manufacturing companies. Accordingly investors may want different information. One size does not necessarily fit all and international accounting standards should recognise this.

The AIC explored these points, and other recommendations, in its response to the earlier consultation. (Full details can be found at: <http://www.theaic.co.uk/Files/Technical/AICIASCFoundationconstitutionreviewsubmissionSept2008.pdf>) Our earlier observations are relevant to many of the questions raised in Part 2 of the review. Some further thoughts on the questions raised by the Part 2 of the consultation are set out below.

## **Questions for consideration**

### ***Should the Constitution make reference to a principles-based approach?***

There is scope for the Constitution to make reference to a principles-based approach. However, including a reference to principles-based standards setting will only support the creation of higher quality accounting standards if it is contextualised appropriately so all stakeholders understand what this involves in practice.

Principles-based regulation should ensure that outcomes have priority e.g. the provision of clear and accurate accounts information. The standards which flow from such an approach will inevitably include some detail on how outcomes (such as clarity and accuracy) should be delivered. However, the regime will be most effective where it leaves some scope for diversity in accounting treatments where this would create a better accounting outcome. This perspective was traditionally part of the UK's approach to accounting and was reflected in the potential for the 'true and fair' override to be applied. With the advent of IFRS such discretion has become increasingly abandoned in favour of mechanistic accounting approaches which all too often lead to less helpful disclosures from the investor's perspective.

### ***Should the IASB extend its remit beyond the current focus of the organisation, i.e. to public bodies?***

No. The IASB's resources should be concentrated on improving the accounting standards which apply to commercial organisations. The fact that an expansion of the IASB's remit is being considered does not create confidence that the IASB is properly focussed on the challenges it currently faces.

### ***Should the Constitution be amended to allow collaboration with a wider range of organisations whose objectives are compatible with the IASC Foundation's objectives?***

The AIC would support this on the condition that it does not dilute the focus of the IASB's work. The goal should be to improve the IASB's ability to fulfil its core functions, not to extend its remit (see comments above).

### ***Should the Constitution be amended to reflect the creation of the Monitoring Group and its role?***

The AIC is unconvinced about the merits of creating a formal Monitoring Group (see previous submission). However, if a Monitoring Group is to be created its role and relationship with the Board of Trustees should be properly explained in the Constitution.

### ***Should the geographical distribution of the Trustees be fixed?***

Changing the disciplines of the Trustees should be a higher priority than adjusting their geographical spread. The AIC recommends that a higher proportion of investors and investor groups should be represented on the Board of Trustees. This would enable it to better evaluate the proposed direction of IASB standards, inspire confidence from the investor community and provide a more receptive environment for engagement with the broader stakeholder (investor) community. If such a rebalancing of the composition of the Board of Trustees were to take place it would also have to take geographical considerations into account.

### ***Should the Trustees adjust the focus of their oversight activities?***

The role of the Trustees should be adjusted in a number of critical respects. They should have a clear obligation to scrutinise the approach of the IASB with a view to:

- ensuring that its proposals have secured sufficient consensus and support from the investor community before they are finalised.
- ensuring that the impact of its proposals is properly understood in relation to costs vs. benefits. This should include drawing conclusions about how specific proposals affect the quality of accounting disclosures as a whole.

The Board of Trustees should also be required to approve/sign-off individual standards (although we do not envisage that it should have powers of amendment).

Changing the role of the Board of Trustees in this way would significantly increase the accountability of the IASB and radically improve the process of standards setting.

### ***What powers should the Trustees have to impose a funding system on users of IFRSs?***

The current funding system should be retained. No changes should be made to the Trustees' current powers.

### ***What influence should the Trustees have on the IASB's agenda setting process?***

The AIC believes that the Trustees should have a greater influence on the IASB's agenda setting process. It should be informed by the headline objectives discussed earlier i.e. it should test the IASB to prove there is investor demand for proposed changes and that individual standards would enhance the overall quality of reporting. Greater influence of this kind would be particularly useful in helping engender greater stakeholder confidence in IFRS.

***Should the procedures of the Standards Advisory Council be adjusted?***

The AIC welcomes any mechanism which enables greater stakeholder input into the processes of the IASB. The AIC has no comments except that the Trustees should be confident that they are fully aware of key issues raised at the SAC and how this should affect its own scrutiny of the IASB's role.

***Should the Trustees consider any other issues as part of the review of the Constitution?***

See the AIC's earlier submission for further comments on the review. Full details can be found at the following link: <http://www.theaic.co.uk/Files/Technical/AICIASCFoundationconstitutionreviewsubmissionSept2008.pdf>)

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