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Dear Sirs

REQUEST FOR VIEWS: TRUSTEES' REVIEW OF STRUCTURE AND EFFECTIVENESS

The Investment Association represents the asset management industry 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 £5.5 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, our members manage holdings amounting to just over 30% of the domestic equity market.

In managing assets for both retail and institutional investors, The Investment Association's members are major investors in companies whose securities are traded on regulated market. As such our members are the main users of companies' financial statements and have an interest in the standards governing how such information is prepared. They invest globally and support high quality accounting standards that are applied consistently internationally in order to maximise the transparency and comparability of financial statements, and consider IFRS is the best means of achieving this. In this context, it is important that IFRS are set within a sound governance framework and we welcome the IFRS Foundation consulting on its strategic direction and assessing the effectiveness of its strategy. We set out below our key observations and in the attached our answers to the specific questions raised.

- **Scope of the IASB's activities:** We support the IASB taking forward work on financial reporting for SMEs listed on an unregulated market as a part of the European Commission's work on developing a Capital Markets Union. As noted, our members invest internationally and want financial reporting that is consistent and comparable globally. We would be concerned should the EU develop an EU standard. IFRS is widely understood by investors and it is generally accepted that, while not perfect, it provides quality, comparable information. This work is also important for small and medium-sized companies accessing international finance.

But we do not believe the scope of the IASB's activities should be expanded to include public sector or private sector not-for-profit entities. However, it should continue to cooperate with other organisations involved in wider corporate reporting (question 1).



- **Monitoring Board:** We consider the composition of the Monitoring Board should be kept under review to ensure it has a balanced representation from those countries that are committed or potentially committed to IFRS. There may need to be rotation of membership to address this. In addition, whilst the activities of the IASB are transparent, there is little transparency over the activities of the Monitoring Board. We believe this needs to be addressed (question 7).
- **The Trustees:** The Trustees have a wealth of experience and knowledge and we consider it could be better used. The Trustees should play more of a role in overseeing the IASB - how it sets its agenda and priorities and ensures its standards are practical and operational. The Trustees distance from the operations of the IASB means that a valuable resource is lost to the standard setting process. In addition, this consultation on structure and effectiveness is running concurrently with the IASB's consultation on its agenda. The former is strategic and we consider that the Foundation should have first consulted and established both its and IASB's strategy before the detailed agenda to achieve that strategy is considered (question 7).

Composition of the Trustees and the IASB. We support the proposal to reduce the size of the IASB from 16 to 13 members. It is often noted that the optimum number of board members for the effective operation of a board is 8 to 12 (question 11). Similarly, consideration should be given to reducing the number of Trustees from 22. It seems illogical to consider reducing the number of IASB members in order to facilitate communication and interaction and not adopt the same approach to the number of Trustees. We would encourage the Trustees to strengthen their approach to succession planning and increase the representation of users, both asset managers and asset owners, on the Trustee board so that its interests are better aligned with the user community (question 8).

The current focus on the geographical spread of IASB members should also be reviewed. Whilst this may be important for the Trustees, the key consideration for the IASB should be competence. Moreover, the standards and accompanying papers can often be very technical and can appear remote from the practicalities encountered by the user and preparer community. We appreciate the increased outreach in recent times as the IASB develops standards but it may benefit by appointing more part time members to bring a practical perspective. This would also allow more user and preparer representation.

Lastly, there is still a high level of US representation on both the Trustee board and the IASB. In the absence of a firm commitment from the US to allow IFRS for domestic issuers, we consider this needs to be addressed (question 11).

- **Funding.** The Foundation needs a stable funding structure and we support it being publicly funded with contributions shared based on GDP. However, we are concerned that the Foundation is looking to increase funding from accounting firms in that we consider this is a potential threat to its independence (question 14).

I trust that the above and the attached are 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
Director, Stewardship and Corporate Reporting

Wider corporate reporting and scope



1. *What are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?*

We support the IASB taking forward work on financial reporting for SMEs listed on an unregulated market as a part of the European Commission's work on developing a Capital Markets Union. Our members invest internationally and want financial reporting that is consistent and comparable globally. We would be concerned should the EU develop an EU standard. IFRS is widely understood by investors and it is generally accepted that, while not perfect, it provides quality, comparable information. This is also important for small and medium-sized companies accessing international finance. However the volume of required disclosures for smaller listed companies might be reviewed as some investors have commented that not all are necessarily of interest to them. The Capital Markets Union provides an opportunity for the IASB to discuss with the investor community whether there is merit in developing a differentiated disclosure framework for smaller listed companies.

For unlisted companies, we accept that different standards could apply and arguably should, in the interests of developing businesses (which could of course eventually translate into listed companies). But we do not consider that they should be a focus for the IASB. Nor do we believe the scope of the IASB's activities should be expanded to include public sector or not-for-profit entities. As regards the former, as noted in the consultation paper, the IPSASB effectively addresses public sector accounting and adopts standards that are closely-aligned with IFRS. We agree with the Trustees that, in view of the proposed revisions to the IPSASB's governance, the IASB should not consider extending its activities to the public sector but continue its current liaison arrangements with the IPSASB. We would also be concerned should the IASB extend its remit to address not-for-profit entities as this could reduce the resource dedicated to setting standards for the listed sector. The IASB already struggles to complete major projects and we would be concerned if extending its scope were to exacerbate this in any way.

2. *Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through co-operation?*

We agree that both the IFRS Foundation and the IASB should continue to collaborate with a range of organisations internationally that share their objectives. The IASB needs to ensure that this does not have a detrimental impact on the IFRS standard setting process or the integrity and independence of the IASB.

We do consider there is merit in the IASB addressing Alternative Performance Measures (APMs). Whilst we believe the increase in APMs is one of the costs of international harmonisation of reporting, it would be helpful if requirements were developed on their use such that, at a minimum, the figures are reconciled back to the IFRS numbers.

IFRS Taxonomy and role of technology

3. *Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?*

We agree that the IFRS Foundation should develop and maintain its own IFRS taxonomy. As noted in the consultation, if left to individual jurisdictions or other bodies it could lead to different practices and undermine comparability. However, taxonomy merely encodes information required by IFRS to facilitate electronic tagging and analysis, it should not dictate the way standards develop.

4. *How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?*

THE INVESTMENT ASSOCIATION'S ANSWERS TO THE SPECIFIC QUESTIONS RAISED

This question is outside The Investment Association's remit.



5. Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?

We support the IFRS Foundation establishing a network of experts to help monitor changing technology and how the IASB should respond. We also support the planned research on technological changes and the impact on the IFRS Taxonomy and work on filing. The IASB may want to review the current work on reporting in a digital world by the UK Financial Reporting Council's Financial Reporting Lab. The Lab has taken account of investors' views in its report "[Digital Present](#)". We understand that it will be building on this as it develops the next phase.

Consistency of implementation

6. What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?

We consider that the quality of implementation is just as important as the standards themselves. Whilst the IASB's main role is to develop standards in that the responsibility for implementation and enforcement lies elsewhere, it is in the IFRS Foundation's interest that its standards are applied consistently and it needs to consider whether and how it can ensure this. Thus the Foundation may not necessarily be responsible but should be involved in establishing the framework and the approach needs to be co-ordinated globally. Currently there is no infrastructure that will ensure consistent implementation and the IASB has a role to play in supporting regulators in this.

In addition, we welcome the IASB's increased outreach in recent years in the development of standards. Nevertheless, when standards are amended too regularly and narrow scope amendments proliferate there can be difficulties in preparers and users interpreting the changes and addressing constant change. There have also been instances when standards have been amended shortly after they have been issued. Repeated changes undermine the credibility of the standards, and do not facilitate the understanding of financial statements by users. The IASB should ensure that amendments are made only when there is strong evidence of a market need and that the changes result in a significant improvement in the transparency of reported transactions.

Governance and funding

7. Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?

We support the current three-tier structure. The Monitoring Board has responsibility for approving Trustee appointments, protecting and advancing the public interest, and reinforcing the public interest oversight of the Foundation. However, the Board's governance arrangements and activities could be more transparent. In addition, its composition should be kept under review to ensure its members are a balanced representation those countries that are committed or potentially committed to IFRS. There may need to be rotation of membership to address this.

As regards the role of the Trustees, they have a wealth of experience and knowledge but could be better used. The Trustees should play more of a role in overseeing the IASB - how it sets its agenda and priorities and ensures that the standards are practical and operational. The Trustees distance from the operations of the IASB means that a valuable resource is lost to the standard setting process. In addition, this consultation on structure and effectiveness is running concurrently with

THE INVESTMENT ASSOCIATION'S ANSWERS TO THE SPECIFIC QUESTIONS RAISED

the IASB's consultation on its agenda. The former is strategic and we consider that the Foundation should have first consulted and established both its and IASB's strategy before the detailed agenda to achieve that strategy is considered.



Trustees and the IFRS Foundation

8. *What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of 'at large' Trustee appointments from two to five?*

We agree that the Trustees should have broad geographical representation. However, the quota system currently specified in the constitution is likely to result in continual pressure for amendments as different regions seek to be represented. The proposal to increase the number "at large" appointments could help address this. We would, however, encourage the Trustees to strengthen their approach to succession planning and increase the representation of users, both asset managers and asset owners, on the Trustee board so that its interests are better aligned with the user community. When appointing Trustees it is important that they are willing to challenge and hold the IASB to account with a view to improving its effectiveness, enhancing its reputation and ensuring it delivers its agenda.

Moreover, consideration should be given to reducing the number of Trustees from 22. It seems illogical to consider reducing the number of IASB members to 13 in order to facilitate communication and interaction and not adopt the same approach to the Trustees.

9. *What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?*

We support the Trustees being drawn from an appropriate balance of professional backgrounds but consider a quota system to address this would be unduly restrictive. Couple this with the geographical quota above, it could become ever harder to find individuals of the appropriate quality to fill vacancies. As noted above, it is important that the Trustees can challenge and hold the IASB to account with a view to improving its effectiveness, enhancing its reputation and ensuring it delivers its agenda.

10. *Do you agree with the proposal to change the focus of Trustee reviews to one of strategy and effectiveness to take place every five years after the completion of the previous review?*

We support proposals to reduce the frequency of the Trustees' reviews to once every five years. While they have often resulted in improvements, reducing their frequency will create stability and continuity and also free the Trustees up to focus on other responsibilities (see questions 7 above).

IASB

11. *Do you agree with the proposals to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution?*

The current focus on the geographical spread of IASB members should be reviewed. Whilst this may be important for the Trustees, the key consideration for the IASB should be competence. In addition, the standards and accompanying papers can often be very technical and their development appears to be remote from the practicalities encountered by the user and preparer community. We appreciate the increased outreach in recent times as the IASB develops standards but the IASB could benefit by appointing more part time members to bring a practical perspective. This would also allow more user and preparer representation.

Lastly, there is still a high level of US representation on both the Trustee board and the IASB. In the absence of a firm commitment from the US to allow IFRS for domestic issuers, we consider this needs to be addressed.

12. Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB to be more flexible and have the best combination of technical expertise and experience?

We agree with the proposal to delete Section 27 and amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB to be more flexible.

13. Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members to provide for a second term of five years rather than the three currently permitted?

We agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members to provide for a second term of five years rather than the three currently permitted. It takes new board members a substantial period of time to become familiar with the range of issues in setting standards.

14. Do you have any comments on the Foundation's funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?

A new funding system was instigated from 2008 that sought to share the burden globally between a diverse range of sources from the global capital markets. Although this was welcomed, the funding system is still voluntary and there is no guarantee that all major economies participate. For IFRS to have credibility, there needs to establish sustainable funding that does not infringe on the IASB or its independence and that this needs to be built in clearly and firmly.

First, the international accounting networks still provide of a significant part of the funding. We are concerned that the Foundation is looking to increase funding from these networks in that this is a potential threat to its independence.

Secondly, we understand that contributions from some key jurisdictions do not match their weight in the international capital markets. All jurisdictions need to contribute in a balanced and equitable manner and we believe funding should be from those jurisdictions adopting IFRS, ideally shared based on GDP. This needs to be balanced and not dominated by a particular jurisdiction to avoid the possibility of that jurisdiction being able to influence the Foundation and the IASB.

15. Should the trustees consider any other issues as part of this review of the structure and effectiveness?

The Investment Association has no other comments to make.