THE
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IFRS Foundation
30 Cannon Street
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Dear Sirs

REQUEST FOR VIEWS: 2015 AGENDA CONSULTATION

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 they are the main users of companies' financial statements and have an interest in the standards governing how such information is prepared. Our members invest internationally - our latest annual Asset Management Survey shows that 32 per cent of UK asset managers' holdings were in UK equities, 23 per cent in other EU countries' equities and 45 per cent in equities of companies listed outside the EU. They 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.

We welcome the IASB's transparency in setting its future agenda and the opportunity to comment on this Request for Views. We set out in the attached our comments on the detailed questions and below our key points.

Timing. The IFRS Foundation's consultation on structure and effectiveness is running concurrently with this consultation on the IASB's agenda. The former is strategic and we consider that the Foundation should have first consulted and established both its and the IASB's strategy before the detailed agenda to achieve that strategy is considered.

Performance reporting. The consultation paper states that performance reporting is to be addressed as part of the project on the Primary Financial Statements. As noted in our response to the ED on the Conceptual Framework, we consider it vital that this is addressed and believe it should be a main priority separate from the Primary Financial Statements project. It is important that there are clearly articulated principles as to what performance is and a closer alignment between performance and the entity's business model. This will help shareholders hold management to account for its stewardship, as articulated in the IASB's Mission Statement of April 2015, including the execution of the entity's business model, the entity's performance and the creation of true shareholder. It will also provide a framework as to when items that have been reported in OCI should be recycled to profit and loss to ensure a consistent approach.

Intangibles. The treatment of intangibles should be researched but currently the IASB's approach to intangibles, and their impairment and amortization is dispersed. For example, goodwill and impairment are included in the assessment stage of the research projects and intangible assets in the inactive stage with extractive industries and research and development. Investors have significant concerns about the accounting for intangibles: both those acquired in a business combination and those that are internally generated. On a business combination some investors will distinguish between what they consider to be "wasting" intangibles that are separately identifiable and have finite useful lives, and those that are "organically replaced" and replenished on an ongoing basis. On the otherhand for internally generated intangibles, some investors only capitalise development and not research costs. A research project should look at the inconsistences between the treatment of acquired and internally generated intangibles, their recognition and measurement, and the accounting for research and development costs.

Implementation issues. It is important that the IASB avoids a repeat of the issues that arose with IFRS 15, Revenue Recognition. It would be helpful when issuing a standard for a fatal flaw review it is made available to a range of preparers so the IASB can determine whether there are any operational issues with implementation before the standard is finalised. (We understand that IFRS 15 was issued for a fatal flaw review but was only sent to the large accounting firms.) It would also be helpful if the IASB looked at reducing the burden of change by requiring implementation of different standards at the same time. The bundling of effective dates would ease the burden on all stakeholders – users and preparers.

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 Reporting

THE INVESTMENT ASSOCIATION'S ANSWERS TO THE SPECIFIC QUESTIONS RAISED

The balance of the IASB's projects

1. The IASB's work plan includes five main areas of technical projects:

   a) its research programme;
   b) its Standards-level programme;
   c) the *Conceptual Framework*;
   d) the Disclosure Initiative; and
   e) maintenance and implementation projects.

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

The Investment Association welcomes the IASB adopting an evidence based approach to determine when projects should be added to the work plan. This is important in that changes should only be made to accounting standards when there is a clearly identified need from the capital markets. We thus welcome the introduction of the research programme so that the IASB can explore matters before it decides further work is needed. It should focus on defining the problem and identifying whether it needs to be addressed. Given the IASB's resource constraints, as far as possible, it should rely on the work of national standard setters and other research available to assist as opposed to undertaking its own research.

It is also important that the IASB is able to respond in a timely manner to urgent issues. As demonstrated in the crisis, standard setters can be asked to address as a matter of urgency accounting issues made apparent from corporate collapses and issues in the economy. The IASB's resource is scarce and it needs to ensure it has sufficient flexibility to react to high profile unforeseen circumstances whilst observing due process.

As noted in our response to the Request for Views on the IFRS Foundation's Review of Structure and Effectiveness, 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. However, this does not appear to be reflected in the consultation paper. 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 initiative is also important for small and medium-sized companies accessing international finance. Moreover, 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.

We also note that neither is the IASB's mission statement of April 2015 referred to in the Request for Views. This emphasised that the standards provide information that is needed to hold management to account and reduce the information gap between the providers of capital and the people to whom they have entrusted their money. Our members are long term investors in companies and welcome this emphasis and consider it would be helpful to articulate it when requesting views on the future agenda.

Research projects

2. The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.

Should the IASB:

a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.
b) remove from its research programme the projects on foreign currency translation (see paragraphs 42-43)? Why or why not?
c) remove any other projects from its research programme?

3. For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its importance (high/medium/low) and urgency (high/medium/low).

Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

Projects to prioritise

The IASB should prioritise Performance Reporting and the Disclosure Initiative.

Primary Financial Statements Project. The consultation paper states that performance reporting is to be addressed as part of the project on the Primary Financial Statements. As noted in our response to the ED on the Conceptual Framework, we consider it vital that this is addressed and believe it should be a main priority separate from the Primary Financial Statements project. It is important that there are clearly articulated principles as to what performance is and a closer alignment between performance and the entity's business model. This will help shareholders hold management to account for its stewardship, as articulated in the IASB's Mission Statement of April 2015, including the execution of the entity's business model, the entity's performance and the creation of true shareholder. It will also provide a framework as to when items that have been reported in OCI should be recycled to profit and loss to ensure a consistent approach.

Disclosure Initiative. As regards the Disclosure Initiative, investors are increasingly concerned about the length, clarity and focus of accounts in that reporting has become increasingly complex. For too many organisations it is seen as a legal compliance process, rather than as a process for communicating what matters. However, the IASB's approach to the Disclosure Initiative is piecemeal and is being handled in a number of separate projects. We have been calling for improvements to disclosures for some time and are concerned about such an approach. It is important that the IASB focuses on the impending principles-based disclosure framework and that other projects are based on these principles to avoid fragmentation.

Projects to add

Intangibles. We consider that the treatment of intangibles should be researched with a high importance and urgency. For example there is a shift from long term infrastructure companies to more short term technological companies with more intangibles. This is supported by research from EY in 2010 which found that in 2009 the net assets of S&P 500 companies represented only 19% of their market capitalization compared to 90% in the 1970s. Intangible factors including the long term viability of the business model have become drivers of value and are not necessarily captured by accounting requirements.

However, the IASB's approach to research on intangibles, and their impairment and amortisation is dispresed. For example, goodwill and impairment are included in the assessment stage of the research projects and intangible assets in the inactive stage with extractive industries and research and development. Investors have significant concerns about the accounting for intangibles: both those acquired in a business combination and those that are internally generated. On a business combination some investors will distinguish between what they consider to be "wasting" intangibles that are separately identifiable and have finite useful lives and those that are "organically replaced" and replenished on an ongoing basis. On the otherhand for intangible assets that are internally generated, some investors only capitalise development and not research costs[1]. A research project could look at the inconsistencies between the treatment of acquired and internally generated intangibles, their recognition and measurement, and the accounting for research and development costs.

Projects to remove

The Investment Association agrees that the projects on foreign currency translation and high inflation should be removed from the work plan.

Major projects

4. Do you have any comments on the IASB's current work plan for major projects?

As regards the IASB's immediate priorities, we consider it vital that it finalises the current project on insurance[2] particularly given the impact this has had on the adoption of IFRS 9.

We highlight that although not necessarily a major project, an area of concern that we believe should be looked at is the reporting of debt. Debt is reported at the balance sheet date but can be different throughout the year. We conducted a small poll of analysts and portfolio managers who considered that the disclosure of average and peak levels debt during the financial year would be a major improvement and indeed some have been requesting this for some time. Analysts will in any event reconcile the interest charge with the reported debt position at the start and end of the year to assess the average debt relative to these points in time. Moreover, the information is disclosed in the quarterly/interim reports albeit that investors are not supportive of companies continuing to report quarterly. Some companies will also give the disclosure when there have been large working capital fluctuations.

Once the major projects are complete, it will be some time before the standards on revenue recognition, financial instruments, leases and insurance are implemented. We consider it will be important for the IASB to have a 'period of calm' and a stable framework for financial reporting so that it can concentrate on implementation and application issues with these standards given they are of fundamental importance to both preparers and users.

Maintenance and implementation projects

[1] https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Research-Report-Investor-Views-on-Intangible-Asset.pdf

[2] We assume the leases standard will be issued shortly as planned.

5. Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19-23 and 50-53)?

The Investment Association is not in a position to comment on the implementation support provided by the IASB and the Interpretations Committee in that this is something for preparers to comment on. However, we consider it important is that the IASB avoids a repeat of the issues that arose with IFRS 15, Revenue Recognition. It would be helpful when a standard is issued for a fatal flaw review it is made it available to a range of preparers so the IASB can determine whether there are any operational issues with implementation before the standard is finalised. (We understand that IFRS 15 was issued for a fatal flaw review but was only sent to the large accounting firms.) It would also be helpful if the IASB looked at reducing the burden of change by requiring implementation of different standards at the same time. The bundling of effective dates would ease the burden on all stakeholders – users and preparers.

Level of change

6. Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

The Investment Association believes it is important that the standards remain principles based and recognise the valuable role of judgment. There are concerns that seeking to devise standards that are designed to eliminate manipulation may have lost sight of this and at times has given rise to systemic issues (for example, incurred loan loss provisioning in banks). IFRS should be firmly focused on a clear goal of long-term stewardship and be principles-based such that the importance of judgement is recognised. We consider this approach will be more resilient over time.

Any other comments

7. Do you have any other comments on the IASB's work plan?

The Investment Association has no other comments to make.

Frequency of Agenda Consultations

8. Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?

If not, what interval do you suggest? Why?

The Investment Association supports the IASB only undertaking an agenda consultation every five years given the time it takes to complete major projects. We note that the last agenda consultation was in fact issued four years ago in 2011.