

# Accounting Standard-setting in a Changing Environment: the Role of the Accounting Standards Board

## Exposure Draft

### Comments by Standard Life Investments Limited

Standard Life Investments Limited, a wholly owned subsidiary of The Standard Life Assurance Company, is one of the UK's leading long term institutional investors with over £100 billion under management.

Standard Life Investments Limited relies significantly on information prepared in accordance with generally accepted accounting principles. Accordingly, it attaches a great deal of importance to the role of the Accounting Standards Board (hereinafter the 'ASB' or 'the Board'). It is very mindful of the significant contribution made by the Board to the development of UK accounting standards that are designed to enable the presentation of information consistent with a true and fair view. Accordingly, Standard Life Investments is very concerned to ensure that the future role of the Board will enable the Board to continue to make a useful contribution to the environment in which we invest our clients' assets.

We welcome the Board's invitation to comment on any aspect of its proposed policy, as set out in the Exposure Draft, and on its implications for the Board's operations of the future. Our comments on the specific issues raised in paragraph 12 of the Exposure Draft are set out below. They are followed by an additional comment which we commend to the Board for consideration.

- (a) *The ASB believes it should continue to provide a focus for UK constituents to ensure their views are properly considered in the international development of accounting standards. This requires the ASB to maintain regular dialogue with constituents and present UK views in an independent and credible way. Do you agree this is an important role for the ASB? What are the most effective ways of achieving this?*

We support the ASB's belief that it should continue to provide a focus for UK constituents to ensure their views are properly considered in the international development of accounting standards. The ASB is well-positioned to make influential representations on behalf of its UK constituency. We suggest that the credibility of such representations is enhanced when the Board can demonstrate effectively that such representations enjoy consensus support amongst its UK constituents.

As a user of financial statements prepared in accordance with generally accepted accounting standards, we have noted that in recent years the quality of the dialogue between users and the Board has deteriorated. It is important that quality dialogue with users is restored. We should like to see the ASB and the relevant user counterparts, including representative bodies, committing to systematic engagement with each other. For example, in the 1990s the

Chairman of the ASB met 2 or 3 times a year with the Accounting Standards Panel of the Association of British Insurers to discuss a range of relevant issues.

- (b) *In contributing to the development and implementation of IFRS the ASB undertakes a number of activities. It:*
- (i) *Maintains continual contact with the IASB at various levels and in different fora and contributes directly to its work;*
  - (ii) *Contributes, through EFRAG, to the exchange of views, within Europe and is actively involved in EFRAG's research work; and*
  - (iii) *Exchanges views with and works with other national standard-setters.*

*Do you consider that these activities are appropriate? How might the ASB undertake them better?*

The activities are appropriate.

Some concern has been expressed that the international accounting standards are too technical, thereby undermining their usefulness for users as well as presenting challenges for preparers of financial statements. We believe the significance of these views should not be underestimated. Therefore, in undertaking these activities better, we encourage the ASB to use its influence to turn the technical tide with the benefit of having International Financial Reporting Standards that genuinely enjoy general acceptance.

- (c) *The Exposure Draft proposes that the Board should bring about convergence between UK standards and IFRS – that is, adopting UK accounting standards based on IFRS with no changes other than those that are essential or are justifiable. Do you agree with that policy? Do you agree with the circumstances in which the Exposure Draft envisages that a UK standard might differ from the IFRS? Do you agree that there remains a role for sector specific Statements of Recommended Practice? How do you believe SORPs might develop?*

Yes, we support the proposal that the Board should bring about convergence between UK standards and IFRS. Also, we agree with the circumstances in which a UK standard might differ from IFRS, and that there remains a role for sector specific Statements of Recommended Practice.

In implementing these aspects of its proposed role, the Board should remain vigilant to ensure that the UK continues to benefit from accounting standards which are, in the main, principles based. It must beware the importation of standards that are rules based.

- (d) *Do you agree that the proposed approach in relation to future interpretations of UK accounting standards based on IFRS is appropriate?*

Yes.

- (e) *This Exposure Draft proposes that, in the absence of guidance from IFRIC, the UITF might promulgate non-mandatory 'UITF views'. Do you agree with this view? Would the same due process as that for UITF abstracts be appropriate, or if not how should it be modified?*

We support the Board's belief that the IFRIC is the appropriate body to interpret IFRS. Furthermore, we support the proposal that the UITF will consider promulgating its views where guidance from the IFRIC appears unlikely to be available in time to meet the needs of UK constituents and will do so if it concludes that that would be helpful.

Whilst we understand that it would not be possible for such 'UITF views' to be mandatory, we nevertheless consider that their non-mandatory status is a potentially weak link the accounting standards framework. As users, we would be frustrated if preparers choose to not apply the non-mandatory views of the UITF. In substance, 'UITF views' should enjoy, in practice, the same standing as UITF abstracts. Therefore, we should like the Board to investigate further what steps should be taken to achieve this objective. One possibility is for the Financial Reporting Review Panel to make clear that it would invoke the sanctions available to it in the event that a set of financial statements it reviewed failed to comply with a 'UITF view' without good cause.

### **Additional Comment**

Non-financial reporting can be useful for users of financial statements and for investors in the global capital markets. The thrust of the role described in the Exposure Draft is correctly to financial reporting. But in view of the importance of non-financial reporting and the increased disclosure trends, we suggest that more prominence be given to non-financial reporting when defining the role of the Board.