

INTERNATIONAL ACCOUNTING STANDARDS BOARD

AGENDA CONSULTATION 2011

COMMENTS FROM STANDARD LIFE INVESTMENTS LIMITED^{1,2}

Question 1.

What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

The Agenda Consultation entitles this section 'Developing financial reporting'. We feel that this misses the point. The future agenda should focus on 'Improving financial reporting'. Financial reports prepared in accordance with IFRS have become far too lengthy and complex such that even sophisticated users of financial statements sometimes struggle to understand the financial position of companies who report in accordance with IFRS and, consequently, to hold them to account effectively. Perversely, as financial statements have become less relevant and useful to shareholders, the cost of preparing them has increased significantly. This is an unsatisfactory state of affairs.

Accordingly, we recommend that the IASB's strategic priority should be improving - rather than developing - financial reporting. In this respect we:

- Welcome the proposal to finalise the conceptual framework. This is long overdue and it should provide a reference point for enabling the IASB and its stakeholders to better understand the principles that the IASB adopts in fulfilling its responsibilities. In the light of our previous comments, we welcome the proposal to develop 'principles for presentation and disclosure', provided that these principles are consistent with improving financial reporting. For the record, we would reiterate previous comments we have made previously to the IASB regarding the importance of 'stewardship' within the conceptual framework. We recommend that 'stewardship' should feature in future versions in order to underpin the benefits of effective accountability. In addition, we suggest that the position of retail investors be reviewed, since it is important that they, too, are able to hold boards to account.
- Recommend that the IASB progress with a sense of urgency the recommendations set out in the report entitled 'Losing the Excess Baggage - Reducing Disclosures in Financial Statements to What's Important'. This report was published in July 2011 by the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants of Scotland at the request of the IASB. Surprisingly, no reference to it is made in the Agenda Consultation. This is a notable and unfortunate omission since its proposals would make a significant contribution to improving financial reporting.
- Recommend that the IASB research only those strategic issues for financial reporting that are consistent with the objective of improving financial reporting. We would be critical if the IASB invests significant resource in exploring issues that are likely to result in financial reports becoming more dense and less useful.
- Recommend that, before additional resource is devoted to the interaction of IFRS with XBRL, more work should be done to establish the degree to which shareholders and institutional investors use XBRL. It does not feature significantly in our own evaluation processes and we are not convinced it is used on a widespread basis, notwithstanding the encouragement that has been given by certain national regulators.

¹ Standard Life Investments Limited is a major global institutional investor with assets under management of £150 billion as at 30 September 2011.

² To be read in conjunction with a letter from Standard Life Investments Limited to the Chairman of the IASB, dated 28 November 2011.

Question 2.**What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?**

We support the IASB's intention to give the highest priority to progressing its work on the projects listed during the comment period for this Agenda Consultation.

We support the IASB's proposal to undertake some other activities and projects as listed in the Agenda Consultation because not only is the IASB 'already committed, or are required to do so' but also they are appropriate and potentially useful for shareholders and investors. In respect of these activities and projects we offer the following observations and comments.

- In view of the IASB's limited resources we suggest that the process for performing post-implementation reviews be streamlined to enhance its cost-efficiency.
- Investing in research in preparation for future standard-setting needs should focus on a small number of important needs, such as the implications of integrated reporting. The allocation of resource to such research should be strictly budgeted and monitored in view of its inherently uncertain return.
- If the amendments to IFRSs through the Annual Improvements process are only 'minor', as noted in the Agenda Consultation, it begs the question as to whether any of the IASB's scarce resource needs to be allocated to this. On the face of it, the need for the Annual Improvements process should be re-evaluated on the presumption it is unnecessary. Perhaps it should be conducted on a triennial basis.
- See our response to Question 1 in respect of the importance we attach to the IASB completing the conceptual framework, and the reasons we set out for this.

With regard to the project suggestions we recommend that priority be given to the following projects for the following reasons.

- Discount rate. Discount rates can have significant impact on key figures included in financial statements. It would be a useful improvement if more consistent guidance could be given as to how to determine discount rates. This would assist preparers and auditors and would improve the confidence with which users rely on key figures that are a function of discount rates.
- Foreign currency translation. Volatility in exchange rates will recur in future years and it can have a significant impact on reported results. It would be appropriate to 'stress test' the existing IFRS (and related standards, if necessary), and make such amendments, if any, as are necessary to ensure that financial statements which are sensitive to foreign currency translation show a true and fair view. This would represent an improvement in the quality of such financial statements, which would benefit users.
- Intangible assets. As noted in the Agenda Consultation, intangible assets are an increasingly significant class of assets for a wide range of entities. Therefore, it is important that they be accounted for properly and that the narrative disclosures that support the amounts reported on the balance sheet are compiled on a consistent basis to assist comparability. This would result in an improvement to financial statements prepared in accordance with IFRS. Furthermore, accounting for intangible assets is particularly relevant to integrated reporting and this project may assist in informing the development of such reporting and the IASB's approach thereto.
- Interim reporting. In today's global capital markets, interim financial reports can be very important for users in terms of both accountability and decision making. Therefore, it is essential that the guidance that is provided by the IASB in respect of such statements is not only fit for purpose but also seen to address relevant issues and address the tensions referred to in the Consultation. The benefits of this should manifest themselves in improvements to accountability and the efficiency with which capital is allocated.

28 November 2011