

19 September 2008

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Dear Ms Oyre

REVIEW OF THE CONSTITUTION

As major long-term investors in global capital markets, we are keen to ensure that the global investment environment operates in a manner which enables sustainable wealth creation. Accordingly, we attach great importance to having a well-respected and effective suite of International Accounting Standards, and we are strong supporters of the International Accounting Standards Board. We welcome the invitation to comment on the Constitutional Review, and we appreciate the thoughtful approach which is being taken thereto.

Key Comment – Integrated Constitutional Involvement of Shareholders and Investors

Financial statements are prepared in accordance with International Financial Reporting Standards (“IFRSs”) with a view to enabling shareholders and investors to exercise stewardship responsibilities and take relevant investment decisions. Accordingly, it is important that the constitutional arrangements ensure that shareholders and investors are formally integrated in a way that ensures that they can exercise appropriate influence in respect of the governance and oversight arrangements as well as the IASB’s priorities and pronouncements. In the latter regard we welcome the Trustees recent decision to invite representatives of relevant organisations, which we understand includes investor organisations, to apply for membership of the re-structured Standards Advisory Council.

However, in the former regard we are struck by the relative absence of any substantive reference to the legitimate role of shareholders and investors, in their capacity as providers of long-term capital to the global capital markets, and to the benefits that would accrue to the Foundation and the standard setting process which it oversees from their constitutional involvement. It should be noted that in recent years the institutional investor community has organised itself such that it is able to speak on a more cohesive basis than was the case in the past. We expect this trend to continue.

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Accordingly, we should like the Trustees and its Constitution Committee to consider very carefully the arguments which are put forward for integrating participation from shareholders and investors into the constitutional arrangements of the IASCF. We believe that such integration will not only strengthen the standing and effectiveness of the Foundation but also accelerate the general acceptance of IFRSs amongst the shareholder and investor communities, as well as of your other stakeholders. We should emphasise that whilst the regular contact and active engagements that are referred to in paragraphs 10 and 11 of the proposal are encouraged, they are not, of themselves, a substitute for the formal integration of shareholders and investors, who have a pervasive locus. Failure to achieve effective formal integration could undermine the support which IFRSs generally enjoy from investors and shareholders. We note that some influential commentators are becoming increasingly critical of IFRSs and the oversight exercised by the IASCF; hence the support of shareholders and investors is very critical.

Although we make some suggestions in our responses to the consultation questions, we have an open mind at this juncture as to how best to achieve such integrated constitutional participation but we believe it is critical that, as a minimum, the IASCF gives a clear commitment to develop proposals to achieve such participation. One possibility that merits consideration is that the Trustees should have a standing Investor Advisory Group, which would have responsibility for not only providing influential advice on the governance of the IASCF but also responding to any requests from the Trustees for advice to help inform their deliberations from time to time.

To develop proposals to the next stage it may be beneficial for the Constitution Committee to have an informal dialogue with senior representatives from the global shareholder and investment communities in the interim. For the avoidance of doubt, we recognise that there is a role for global regulators and their representatives within the constitutional arrangements; our intent is that the recommendations arising from the Review should augment rather than substitute for their proposed role.

We trust our key comment and our response to the questions posed in the Consultation Paper, which are enclosed, will receive favourable consideration.

Yours sincerely

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Edinburgh

And for and on behalf of the undernoted:

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cc. Mr G Zalm – Chairman of the Trustees
Mr T Seidenstein – Corporate Secretary