

Press Release

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Accounting Proposals Attack Shareholder Rights

A joint proposal from the IASB and FASB threatens to extend the weak US reporting model to the rest of the world. If enacted, it could severely damage the interests of shareholders.

The proposals in this document appear to have as their main motivation the reduction of the big international accounting firms' accountability to, and therefore potential liabilities to, shareholders. This is cleverly achieved by denying that stewardship should be an objective for accounts, and identifying the financial markets and all potentially interested parties equally as the clients for accounts. A vague "decision usefulness" objective is proposed as the single objective which will be used in future when drawing up accounting standards, and there is no emphasis on the fact that accounts are the mechanism through which directors of companies "account to the shareholders".

In the view of the UK Shareholders Association (UKSA), these proposals, which have been drawn up by members of FASB, appear to reflect more closely the relatively weak governance rights currently existing for shareholders in the US than the rights and aspirations of shareholders in the rest of the world.

What's the big issue?

It's accountability and stewardship. We regard a primary, if not **the** primary purpose of accounts as being the mechanism which *"enables management to account to investors on the state of the entity's financial affairs and changes in those affairs, to assist in assessing the results achieved under management's stewardship and the strategies employed and risks undertaken that have led to those results."*

However when the FASB decisions were made, only one member, an investor representative, appeared to believe that stewardship should be a guiding objective of financial reporting. It is clear that the FASB intention was almost the opposite: to quote from the minutes of the FASB meeting at which the decisions were taken, consideration of stewardship *"would not be used by the board in setting standards"*.

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UKSA—The independent voice of the private shareholder

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It would be disastrous for shareholders around the world if this became the international model; they would have no right to expect accounts to give them the quality and depth of information they need to exercise their ownership rights. Rights of shareholders in the US are weak compared with most other jurisdictions.

The consultative document that embodies these proposals was published in July 2006 jointly by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). The document is entitled: PRELIMINARY VIEWS - Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information

This document is available at http://www.fasb.org/draft/pv_conceptual_framework.pdf on the IASB site. Responses are requested by 3 November 2006, but we would urge interested parties to respond after that date if they miss the deadline; the debate will not cease on 3 November.

We note that one shareholder representative on FASB did not agree with the proposals, and that two members of the IASB have issued a dissenting opinion in paragraphs AV 1.1 to AV 1.7 of the document. We commend the dissenting opinion.

If readers wish to find out more, or wish to make a submission, a detailed discussion is present at: www.uksa.org.uk/Accounting_and_Stewardship.pdf. The UK Shareholders Association urges investors to make their voice heard, even if after the 3 November deadline.

About The UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.

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