

So, having calculated an imaginary option cost to be charged to the Income Statement, what do we do with the corresponding liability? Well, we cannot do anything because there isn't a liability. What this means is that the equity side of the balance sheet remains the same regardless of whether a share based payment is charged or not. Now, where the share price falls and the option is therefore valueless, the income statement is still charged with a share based payment. Of course, the accounting firms charge for calculating the cost of share options, which reduces the amount of profit (and cash for that matter) which is available for shareholders. Shareholders are paying dearly for irrelevant information.

Taking all the above into account it can be seen that the income statement no longer shows what actually happened, but is simply a conglomeration of judgements, none of which shareholders can assess or challenge. Only the cash flow statement can be trusted these days.

So can we have UK GAAP back, please, modified to incorporate the one benefit that IFRS gave us - which is that net assets or liabilities in company pension schemes are included in the accounts?

Letter to the Editor

From Peter Bartram

Dear Editor,

I do feel impelled to congratulate you on John Hunter's piece in your latest Newsletter. Quite apart from the injustice of it, I feel that the Tories' failure to take effective action on the issue of top people's pay is adding significantly to social division and Corbyn's perceived legitimacy.

When working in the UK at the HQ of a major multinational corporation in the 80s, I was a member of its Remuneration Committee and could see how the ratchet effect worked, with comparisons always being made with the highest paid execs in competitor organisations. There was no countervailing restraint on the process. And since then it has got astronomically worse.

I do hope that your words on this issue will be heeded properly, and soon. Otherwise we really will have to look forward to Prime Minister Corbyn.

Independent Financial Advisors – how unbiased are they?

by Peter Parry

I find the rules surrounding pensions baffling. I have always used a financial advisor for my pension and been handsomely ripped-off for doing so. In one case this involved a trip to the Financial Ombudsman Service. I won, but that is another story.

For a number of reasons I decided in June 2016 to look for a new IFA. One of the routes I tried was to go to a website called 'unbiased.co.uk'. None of the firms listed took commissions (which are now outlawed anyway) but in many cases their charging structure was simply based on a percentage of funds under management. Underneath the veneer of simplicity and clarity it was opaque. I wanted more transparency. I wanted to know what I was getting and what it was costing. Essentially, I wanted a menu of services, an ability to pick the ones I needed when I needed them and then pay for them on an hourly basis. I spoke to about six firms in total, none of which offered what I really wanted.

In the end my accountant, who is extremely dismissive of financial advisors, put me in touch with a firm that another of her clients was using. 'I am not recommending them,' she said, 'but I have met them and they seemed OK. You'll need to make up your own mind.'

I arranged a meeting with one of the directors; let's call him Tim. He visited me and listened to what I had to say, asked plenty of good questions, took copious notes and gave some free advice about recent changes to pensions – particularly those concerning inheritance tax. He sent a good proposal based on providing the sort of service I wanted. I was impressed and agreed to set up a SIP with his firm. At last, I seemed to have found someone who appeared to be independent and offered what I wanted.

In July of this year and shortly after I had signed up with Tim's firm, I read an article in the Money section of the FT on Saturday. The title was 'Jet setting with journalists must come to an end'. Basically, it said that independence amongst financial advisors of all types was still being widely compromised by the acceptance of lavish hospitality from fund companies. Oh dear! I thought. I wonder how my new IFA scores on this aspect of independence. There was only one way to find out: ask him. So I did. By return I received the following email – which I have edited slightly to preserve confidentiality:

Dear Peter,

Thank you for sending a copy of the article you refer to, much of which I have to say we as a company wholeheartedly agree with. I do not know XYZ's policy (the platform provider) in respect of gifts and hospitality but I am able to answer on behalf of my firm. I would point out that XYZ only act on instructions from the adviser community so their influence from inducements is likely to be a lot less than for advisers.

We keep a gifts and inducements register which is used by all staff to record such things as gifts and hospitality invitations. We do take a common sense approach in that anything less than £10 we do not require the staff to declare; this avoids the need for the advisers to declare perhaps a cup of coffee a particular company has purchased them in a meeting. All entries are signed off by a director to ensure they are not influencing our decision-making process.

Looking back at the register in the current and last year we have had one of the directors attend a dinner with Artemis and they provided a book to all of the delegates, last year Schroders took the adviser team to a local Indian restaurant for a meal following a fund manager presentation, another director was invited to a cricket match but declined the invite and we received two bottles of whiskey from clients as a thanks.

I remember when I first entered the industry the offers of hospitality were certainly more than they are today, I think the Bribery Act 2010 removed the majority of the invites we used to receive. We also used to run a staff Christmas raffle where any gifts received (such as the whiskey mentioned above) would be raffled off to the staff at Christmas time at no cost. However due to the quantity of gifts we now receive being very minimal we no longer have sufficient to support the raffle.

I think the industry is slowly being 'cleaned up' and I can't 100% assure you there aren't still some companies who are influenced by providers but I can assure you that all of our advice is supported by independent research and we do not want to compromise that going forwards.

Coming as quickly as it did, I thought that this was a good and reassuring response. It answered my question and it didn't seek to obfuscate or waffle. I suggested to Tim that his firm ought to mention their no-gifts policy in their sales brochure. 'It's a good point,' mused Tim. 'I'd never thought about it before.' I don't suppose he had; but then I don't suppose anyone had ever raised it with him before.

There is more to being independent in financial services than avoiding payment based on commissions. There are plenty of other factors that can affect the objectivity of advice given. Accepting lavish hospitality is one of the potentially more pernicious and damaging ones. It is up to us as consumers to ask the right questions and make sure that we are satisfied with the answers.