

UK Shareholders Association

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“A review of the Conceptual Framework for Financial Reporting” IASB Discussion Paper DP/2013/1; July 2013

1 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-style 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 financed by its individual members.

2 UKSA notes the decision not to revisit Chapters 1 and 3 of the existing Conceptual Framework for the reasons given in chapter 9 of the DP. UKSA is critical of that decision as those chapters address matters fundamental to the achievement of the statutorily required true and fair view.

UKSA notes that others take a similar view.

Baroness Hogg of the FRC has said” stewardship reporting.... should be in ... the Conceptual framework as a primary objective...”. and

“ Prudence should be explicitly acknowledged in the Conceptual Framework” ¹

Geoff Whittington, Senior Research Fellow, Centre for financial analysis and policy, Judge Business School, Cambridge has stated that stewardship matters because:

accounting is concerned with past transactions and events, and

accounting has confirmatory value, and

it has a feedback effect from investors to management.²

Robin Sleigh-Johnson, chairman of the Corporate Reporting Faculty of ICAEW has been quoted as saying that if the IASB restores the principle of prudence this might help to “³alleviate some of the concerns”.

EFRAG has been working with the Regulators in France, Italy , Germany and Britain to issue papers addressing concerns over the DP. Inter alia they comment an “issue that provoked some controversy is the role accorded to prudence and reliability. The new (2010) chapter ...

¹ FRC Press release 3 October 2013

² ICAEW conference on the DP; November 2013

³ Economia article by Sally Percy 21 October 2013

does not include either term.” They question “whether the Framework should specifically refer to prudence...”⁴

3 Reasons to readdress the present 2010 chapters

3.1 Prudence

Whilst Hans Hoogervorst has argued that prudence is still there despite its disappearance from the Conceptual framework it only appears where there is, in the terms of the standards, “uncertainty”. By implication this means that there are times when values are certain. This is a proposal UKSA disputes. Life is inherently uncertain. Few, if any, predicted the financial crisis. No-one predicted the drop in the value of gold early last year of over 25% in one week even though, as the Times reported, such a movement should only be expected once in 6700 years.

UKSA believes that prudence is essential. The IASB has appeared uncertain about this. We attach a paper issued by UKSA which discusses this further.⁵

3.2 True and fair

UKSA was a sponsor of the opinion written by George Bompas in 2013 considering certain legal implications of IFRS. That confirmed many of our concerns.

We are aware that Martin Moore has replied stating that he is happy that compliance with IFRS does produce a true and fair view. The FRC and the UK government have indicated that, in their opinion, Mr Moore’s opinion prevails. UKSA however retains doubts about this and attaches a commentary on the Moore opinion.⁶ The principal conclusion must be that such uncertainty, which will apply to the whole of the EU, cannot be acceptable and that the IASB needs to consider this carefully with the relevant regulators.

As the IASB should note, the magazine of the Financial Reporting Faculty of the ICAEW inserted a question mark into its headline when reporting the Moore opinion : “ Legality of IFRS in the UK clarified ?”⁷ In the opinion of UKSA, representing private investors whose own money is at stake, the answer to this question is negative.

3.3 Accountability (formerly stewardship)

UKSA believes that the primary purpose of financial reporting is to provide an account of what the directors of the company have done to ensure best use of the cash and other assets with which they have been entrusted. This needs to be restated in the Conceptual Framework as, for example, Andrew Lennard of the FRC, comments:” the framework should clearly acknowledge the importance of...accountability (or stewardship).”⁸

3.4 Reliability

Shareholders are entitled to place trust in the accounts they are presented with. The, example of the banks, while admittedly extreme, shows that this cannot be relied upon. The shareholders were told that the accounts of banks showed a true and fair view of going concerns only months before they were shown to be insolvent and, in many cases throughout Europe, in need of taxpayer support. Such accounts were clearly not reliable and could not be trusted.

⁴ Getting a Better Framework. Our Strategy January 2013: EFRAG,ANC,ASC Germany, OIC and FRC

⁵ Prudence is Missing; UKSA 23 April 2013

⁶ Comment on “The Financial Reporting council, international accounting standards and the true and fair view”. UKSA. 3 Dec 2013

⁷ By all Accounts : January 2014: p8.

⁸ FRC bulletin Sep 2013

The IASB has begun to address one area of particular problems with its draft revision of IAS 39, criticism of which it has admitted “was partially justified.”⁹

The term “reliability” has been omitted from the present chapters apparently because it is thought to be ambiguous. It is unclear why this view should be taken. Shareholders need to have trust in the figures. They need them to be reliable. Accounting standards should always be focused on this objective.

EFRAG suggests that in the move to “faithful representation” from “reliability” in the 2010 revision to the Framework measurement, “uncertainty” has been lost as a key factor.¹⁰ UKSA endorses the view that proper certainty as to the amount of an item is crucial in achieving reliability.

4 The questions in the DP

UKSA believes that seeking to answer the detailed questions in the DP at this time would not be advantageous. UKSA believes that the basic questions outlined in Section 3 above need to be resolved before detailed questions can usefully be dealt with.

There are a number of points on detail, terminology and underlying assumptions which UKSA believes need consideration and these are dealt with in an appendix to this submission.

5 Conclusion

UKSA asks the IASB to take on board the fundamental points raised in section 3 above. We fully support the concept of accounting standards, but, as previously stated, feel that fundamental changes are needed to restore shareholders’ trust in accounts.

Enclosures:

Prudence is Missing; UKSA. April 2013

Comment Martin Moore Opinion- UKSA Dec 13

Appendix

RAC/EC 14 Jan 14

⁹ Memorandum submitted to the Panel on tax, auditing and accounting set up by the Parliamentary Commission on Banking Standards; Para 13.

¹⁰ EFRAG and others Bulletin on Reliability: June 2013

