

Media release

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Major institutional investors call on UK government and EC to reconsider fault-lines in international financial reporting standards

A group of long-term UK investors and the UK Shareholders Association have today released a statement raising grave concerns over continuing fault-lines embedded in the international accounting standards used by listed companies in the UK (see attached). The group, which has been urging the government to clarify the consistency between IFRS and EU Company Law since 2012, believes that a recently released paper by the government's Financial Reporting Council on "True and Fair"¹ fails to respond to the problems they identified, and which have been validated by QC Bompas in a legal opinion in 2013.

At issue is whether IFRS deliver a "true and fair view" as required in Company Law. The investor group believes that as long as international accounting standards do not require that companies disclose the underlying capital reserves, and which part is available for distribution, companies are at risk of paying dividends out of capital.

The importance of this matter was highlighted just last week, when Betfair plc admitted it had paid illegal dividends out of capital. The problem has been arguably most pernicious in the case of banks in the run up to the financial crisis, where the Bank of England has long-maintained that the underlying problem was one of solvency, not liquidity, and yet investors could not have gleaned this by looking at banks' report and accounts. Instead shareholders and taxpayers found out the hard way as share prices nose-dived and capital was destroyed.

The group of investors calls on the FRC and EC to consider the matter urgently, or – in the event that this proves difficult – they are urging the government to undertake a robust independent review.

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1 <https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/True-and-Fair-June-2014.pdf>