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LAPFF members raise accounting concerns with banks

The Local Authority Pension Fund Forum (LAPFF) is highlighting the distorting effects of International Financial Reporting Standards (IFRS) on UK-listed banks in voting alerts issued to its members.

LAPFF has issued voting alerts on both HSBC and Royal Bank of Scotland ahead of their AGMs later this month. At HSBC, the Forum has recommended voting against the bank's chairman Douglas Flint. At Royal Bank of Scotland LAPFF's recommendation is that members oppose the report and accounts.

In early 2011 the Forum took the decision to devote more resource to accounting and audit issues, and it has been a high-profile critic of IFRS. At its annual conference last year LAPFF published a major report on the impact of IFRS on UK and Irish banks¹. This was followed up with meetings and conference calls with other concerned investors.

LAPFF's concerns with IFRS include that they can lead to accounts being presented that are contrary to the 'true and fair' principle set out in statute and case law with section 393 of the UK Companies Act 2006. This requires companies to disclose net assets and profits sufficient to indicate both solvency and the ability of profits to be distributed. Directors can then discharge their duties properly, based on the audited accounts, including assessing the going concern position. LAPFF believes aspects of IFRS conflict substantially with the ability to make this assessment correctly.

Cameron Rose, deputy chair of LAPFF, said: "If shareholders are to act as effective stewards of the banks they own, then they require financial reporting that presents an accurate picture. We don't believe IFRS do this, and as such are contrary to a 'true and fair' view as required in company law. We are raising these issues directly with policymakers and other investors. However, this AGM season we have also decided to issue voting advice to our members related to our concerns about IFRS. This ensures our voting and engagement activity complements our policy work."

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¹ http://static.lapfforum.org/LAPFF_Post_Mortem_report.pdf



About LAPFF:

The Local Authority Pension Fund Forum (LAPFF, www.lapfforum.org), which was set up in 1991, is a voluntary association of 55 public sector pension funds based in the UK. It exists 'to promote the long-term investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest.' The Forum's members currently have combined assets of over £100 billion. PIRC is the Research and Engagement partner of the Forum.

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