



CALEDONIA
INVESTMENTS

By email: @frc-asb.org.uk

Peter Godsall
ACCOUNTING STANDARDS BOARD
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1 February 2010

Dear Mr Godsall

The Future of UK GAAP

Caledonia is one of the UK's largest investment trusts, listed on the London Stock Exchange. We have read the Board's proposals on the future of UK GAAP with interest, and wish to comment on the proposal in paragraph 2.36 in relation to the SORP published by the Association of Investment Companies ("AIC"), that "the SORP should be withdrawn and investment companies should apply IFRS".

Caledonia already prepares accounts under IFRS. However, we continue to rely on the guidance provided by the AIC SORP to correctly apportion our returns between income and capital, which is essential to ensure that we meet the requirements of Section 842 ICTA 1988 and therefore qualify as an authorised investment trust.

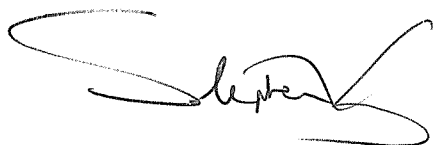
Tax law itself refers exclusively to the AIC SORP in both the loan relationships legislation and the derivatives legislation. The AIC SORP therefore provides the objective, independent guidance upon which both HMRC and the investment industry generally relies. If the SORP is withdrawn, this will result in uncertainty of tax treatment of transactions, which would be detrimental to the industry, and almost certainly lead to increased costs and potential loss of revenues whilst the position is clarified.

In fact, it seems that the recommendation that the SORP be withdrawn is inconsistent with the views expressed by the Board in the consultation paper, as this SORP clearly passes the Board's test that "SORPs should only remain where there is a clear and demonstrable need arising from sector specific issues not covered by guidance in accounting standards".

The AIC SORP is supplemental to existing UK GAAP and is complimentary to the requirements of IFRS. Removal of this SORP could lead to inconsistencies in accounting treatment and uncertainty of tax treatment for both companies and investors, at a time when the government is trying to enhance the competitiveness of the UK as an international centre for asset management.

In conclusion, the AIC SORP provides objective, independent guidance for the entire investment industry, not only investment trusts, and it should continue under the endorsement of the ASB as industry-specific guidance.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephen King', with a large, sweeping initial 'S'.

Stephen King
Finance Director