

Peter Godsall  
Accounting Standards Board  
5<sup>th</sup> Floor, Aldwych House  
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London  
WC2B 4HN

29 January 2010

Dear Mr Godsall,

### **The Future of UK GAAP**

F&C Asset Management PLC (F&C), through its subsidiary companies, is the Manager and Administrator of 22 active Investment Companies, including Foreign & Colonial Investment Trust PLC (FCIT), the oldest and one of the largest Investment Trusts in the UK. F&C has been represented on the Board of the Association of Investment Companies (AIC) for much of the past 20 years. Jeremy Tighe, a senior employee, is the appointed Fund Manager of FCIT and is currently a Deputy Chairman of the AIC.

The AIC SORP: Financial Statements for Investment Trust Companies and Venture Capital Trusts ("the AIC SORP"), issued in January 2009, is an update of previous Investment Company SORPs. Each SORP has been drawn up under the guidance of Investment and Accounting professionals and User Group representatives and has been endorsed by the ASB. F&C has always been supportive of the development of the Investment Company SORP by the AIC and has directly assisted the AIC in the process of updating the most recent SORP. F&C has encouraged the adoption of the SORP recommendations in full in the belief that doing so aids Users and Auditors of the Accounts in understanding, interpreting and comparing Investment Companies' results. All of the Investment Companies F&C administers, where able to adopt the SORP, have done so consistently every year.

F&C welcomes the ASB's request for responses to its Policy Proposal document on "The future of UK GAAP". In particular, we wish to comment on the ASB's recommendation, in paragraph 2.36 of its document, that the AIC SORP "should be withdrawn and investment companies should apply IFRS." We strongly disagree with this proposal. Whilst we expect Investment Companies to adopt IFRS once UK GAAP is withdrawn, we strongly believe that an endorsed SORP for Investment Companies is important in promoting consistent disclosure of information for users, including regulators and taxation authorities. Our reasoning is set out below.

The Foreword to the AIC SORP emphasises its aim as being "to seek to harmonise accounting practice within the industry, by identifying and setting out best practice across a wide range of issues." The ASB, which has described Accounting Standards as being "primarily applicable to general purpose company financial statements", acknowledges in its own statement in the SORP the need for "further guidance" in the form of SORPs "in order to implement accounting standards effectively" in particular industries or sectors. F&C agrees wholeheartedly with the ASB and believes that the AIC SORP admirably achieves the ASB's aim, within the Investment Company sector.

The AIC SORP has been accepted and implemented by both UK and Internationally-based Investment Companies, including those complying with International GAAP (IFRS). Shareholders, tax authorities, regulators, potential investors and other readers are able, as a consequence of this Industry-wide implementation, to meaningfully interpret and compare Investment Company results. For example,



Investment Company performance can be distinguished and measured between profits which are distributable by way of dividend and those which are not. These distinctions, together with other Industry-specific accounting issues dealt with in the AIC SORP, remain in F&C's view sufficiently complex to justify explanation within a single document such as a SORP. Specifically, the continued existence of the SORP can be justified by a "clear and demonstrable need arising from sector specific issues".

The accounting conventions arising out of the AIC SORP have enabled UK tax and regulatory authorities, and banks, to rely on the accounts of Investment Companies without detailed further clarification. Lenders are able to rely upon the accounts when measuring their lending ratios, whilst HMRC refers directly to annual accounts in the process of establishing compliance with Section 842 (ICTA) and other taxation rules. Industry analysts are able, as a consequence of the uniform application of the AIC SORP, to produce meaningful comparisons of individual Company's performance against peers, against benchmarks and against Objectives.

F&C believes that the AIC SORP has provided benefits "in terms of contributing to the . . . aim of improving financial reporting." Importantly, the endorsement of the SORP by the ASB gives added weight to the SORP's recommendations and the enhanced disclosures arising out of its implementation have been welcomed by the readers and users of Investment Company Accounts.

As we noted above, the ASB has expressed its belief in the past in the role of SORPs in effective implementation of standards. The fact that the ASB is now recommending in paragraph 2.36 that it should retain oversight of certain SORPs but not others (and specifically not the AIC SORP), must inevitably lead to a down-grading of the AIC SORP's "status". Without the endorsement of the ASB or a similar accounting body, and without the compulsion under UK or International GAAP for an Investment Company to state whether or not it has complied with the SORP, the AIC SORP would inevitably lose a degree of credence and the accounts of Investment Companies may become less compliant and less comparable.

The consultation document refers to the possibility of IFRIC becoming the reference point for authoritative interpretations of IFRS in future. F&C is concerned that IFRIC may not have detailed knowledge of the Industry-specific, and UK-centric, issues faced by Investment Companies and addressed within the SORP. We also fear that their ability to provide interpretations in a reasonable time-span may be compromised by their extremely busy international schedule. Additionally, we believe that the replacement of an ASB-backed SORP with a combination of non-compulsory AIC recommendations and IFRIC interpretations would inevitably lead to disparity in accounting for Investment Companies.

F&C strongly believe that the ASB, or a similarly constituted accounting body, should continue to recognise and support the AIC SORP. The endorsing accounting body should have an understanding of relevant Industry, and UK-specific, regulatory issues. The AIC SORP should remain subject to regular review and update under the auspices of that accounting body. To withdraw official backing from the AIC SORP, or to replace it with interpretations, would lead to a gradual divergence of practice in Investment Company disclosure and a consequent lack of comparability within the Industry. This would be confusing and unhelpful to investors, shareholders, lenders, auditors, regulators and other interested bodies.

We would welcome an invitation to discuss these issues further.

Yours sincerely,

Mike Woodward  
Head of Investment Trusts