

AccountancyAge

FRC and BIS defend legality of global accounting standards

by Richard Crump 04 Oct 2013



CLAIMS that [international](#) accounting standards conflict with UK company law have been dismissed as "misguided" by UK policymakers.

The Department [for Business](#) (BIS) said it had "given serious consideration" to claims that accounts prepared using IFRS could be incompatible under UK and European law, and that it was "entirely satisfied that the concerns expressed are misconceived".

BIS' view matches legal advice taken by the FRC, the UK accounting regulator, from [company](#) law counsel Martin Moore QC. He found that IFRS is legally binding and

achieves a true and fair view in financial statements and could, in most instances, be achieved by complying with the rules.

Moore's view is contrary to that of Lincoln's Inn counsel George Bompas QC, who cast doubt on the legality of IFRS earlier this year in a legal opinion obtained by a [group](#) of UK investors. Bompas identified inconsistencies between IFRS and existing company law, suggesting directors must override the standards in order to comply with competing legislation.

The investor group - comprising the Local Authority Pension Fund Forum, the Universities Superannuation Scheme, Threadneedle Asset Management and the UK Shareholders Association - sought the opinion to support their view that the IFRS framework contained "substantial legal flaws" and that certain outcomes from IAS 39, the accounting standard that governs how banks provision against loan losses, are contrary to the true and fair view.

A group of MEP's also cast doubt on the [future](#) of IFRS when they called for a review of its compatibility with EU law earlier this year. In a draft amendment to proposed regulation on the use of IFRS in the EU, the MEP's demanded that the primacy of a true and fair view be explicitly recognised in company accounts.

Moore's latest opinion - he first published a view on the true and fair requirement for the FRC in 2008 - is unlikely to satisfy critics of IFRS, but the FRC hopes that, along with statements published by BIS, it has ended questions over the legitimacy of the standards.

However, though the FRC has defended the legality of the standards, it did say the rules and the conceptual framework that underpins it could be improved. The FRC believes the need for prudence should be explicitly acknowledged in the framework.

A specific reference to the concept of prudence was dropped by the IASB, the global accounting standards setter, in 2010 in favour of the concept of neutrality. The move has proved controversial with investors and politicians questioning the wisdom of its removal and former chancellor Lord Lawson describing it as a "stupid thing to do".

Hans Hoogervorst, chairman of the IASB, has so far resisted pressure to re-insert prudence into the framework, and has argued that the basic tenets of the concept remain intact and visible throughout IFRS.

The standard setter is currently reviewing the framework and according to its consultation paper, "it remains open to question, however, whether the framework should specifically refer to prudence and what precisely prudence means".

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