

Controversy over accounting standards puts quality of Europe's financial statements at risk

The United Kingdom Society of Investment Professionals (UKSIP), representing investment managers and financial analysts, is concerned that the implementation of international accounting standards in the European Union has become a matter of controversy.

UKSIP supports the principles underlying the work of the International Accounting Standards Board, in particular that the objective of financial statements is to enable users to make economic predictions about future prospects: thus the statements should be transparent and disclose economic reality. Capital will then be effectively used and benefits will flow to society as a whole, in that savings will be appropriately invested. Many existing accounting practices in Europe do not achieve this aim.

Although the EU decided some years ago to move towards IAS by 2005 for consolidated financial statements, opposition has now arisen, first about two standards: IAS 32 and IAS 39. These take steps toward transparency by showing many financial instruments, including derivatives, at fair value.

The opposition has been led by industries in financial area, but general and government action has gone further. The method of standard-setting itself has seen an attack that, if successful, would have undesirable consequences that can hardly be acceptable.

First, if standard setting is upset by political interference and trade-offs, financial statements in Europe will lose quality and the cost of capital will rise.

Second, many companies are aware of these facts about the cost of capital. Should adopted standards in the EU see significant derogation from IASB principles, or the independence of standard setting be subject to overrides, companies will look elsewhere.

No one can say that the US generally accepted accounting principles are perfect, but they are user oriented and they serve deep and efficient capital markets that also serve the needs of users. Companies in Europe, in choosing between such markets in the US and an EU system modified by considerations contrary to the needs of investors, may choose the first. Thus those who oppose the transparency of IAS and the independence of the standard-setting process may succeed in achieving exactly the contrary result to the one they desire.

Our profession therefore strongly supports the principles of the IASB, the acceptance by the EU of IAS 32 and IAS 39, and the continuing independence of the standard-setting process.

John Rogers
Chief Executive

David Damant
Chairman
Accounting Advocacy Committee

UKSIP
London EC2V 8EY