



Ms Pauline Wallace
Chair
UK Accounting Standards
Endorsement Board
8th Floor, 125 London Wall
London
EC2Y 5AS

3 June 2021

Dear Ms Wallace

UK Accounting Standards Endorsement Board ('UKEB') – endorsement criteria

We write formally to request a copy of the Guidance on “true and fair view” the UKEB is using for standards endorsement purposes as well as for the purpose of influencing the development of IFRS.

Paragraph 7 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 requires for adoption:-

- (a) the standard is not contrary to either of the following principles—*
- (i) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;*
 - (ii) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;*

We believe that it is not possible for the UKEB to simply adopt the position of the Financial Reporting Council ('FRC'), which was reliant on the position of Martin Moore QC.

We note from previous Freedom of Information ('FOI') requests that the intent of an official responsible for helping secure that opinion with the FRC was to rebut the position of Mr George Bompas QC¹.

However, a Freedom of Information request shows the outcome was not actually a rebuttal of Mr Bompas. We know that because that the FOI shows that someone at the FRC attempted to mislead Reuters to state that the government had disagreed with Mr Bompas². The FOI shows that a government official had to override the FRC to state that the government had not disagreed with Mr Bompas' opinion³.

¹ FOI 2016-15803 page 10 e-mail of 10th July 2013 11:26

² Ibid

³ FOI 2016-07497 page 3 e-mail of 3rd December 2015 11:58

The matter in question does not relate to the disclosure of a single figure for distributable profits, the FOI shows this was a distraction from the issues at stake. The issue at stake does relate to the segregation of profits and reserves between realised and unrealised amounts.

Whatever 'gymnastics' took place to arrive at the Moore opinion, and the interpretation the FRC tried to place upon it, there is a short route to disproving its conclusions.

The distinction between realised and unrealised profits is necessary in the first instance to determine going concern status whether there is intent to make a distribution or not.

A company may not be a going concern if it cannot service debt and cover ordinary costs and - absent additional sources of funds or guarantees – that requires cash flows from profits, not unrealised gains. Being able to distinguish between cash or near cash (realised) or non-cash (unrealised) is essential to determine whether a company is capable of being a going concern or not.

Going concern status is an important element of the true and fair view, and vice versa. Auditors should form an opinion on going concern status based on the audited numbers in the accounts. If the accounts are inadequate for that purpose, they will reach the wrong opinion. The matter of realisation of profits is relevant for the going concern position of mutuals, for example, which do not pay dividends.

I also note that the Moore opinion failed to address that the net assets test of s831 CA 2006 and s92 CA 2006 requires unrealised profits form an undistributable reserve as stated in the balance sheet. Paras 51-52 on page 23 of *'Miscellaneous Reports by Auditors Required by the United Kingdom Companies Act 2006'* also confirms that is the case.

Bad accounts and bad audits are likely to mean that investments are worth less than the accounts portray, or are even worthless. Having the correct endorsement criteria is a significant matter of public interest.

I look forward to your reply and trust this will require a decision of the Board. A copy of this letter has been placed on the LAPFF website, as shall the reply.

Yours sincerely,



Doug McMurdo, Chair, LAPFF
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cc: The Baroness Bowles
The Lord Sikka
The Lord Lennie
The Lord Davies
Mr Darren Jones MP – Chair BEIS Committee