

17 August 2004

Rt. Hon Jacqui Smith MP
Minister of State for Industry and the Regions
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

Dear Minister of State

Endorsement of IAS 39

The UK Society of Investment Professionals (UKSIP) has consistently supported and encouraged the development of International Financial Reporting Standards (IFRS) by the International Accounting Standards Board (IASB) over a number of years. The Society believes that the development of IFRS represent a major contribution to providing consistent and comparable financial information across the capital markets, delivering a range of significant benefits. It has been encouraged by the commendable support that the UK Government has given to this process.

In this context, UKSIP is writing to you to express its concern over the continuing uncertainty regarding the endorsement of International Accounting Standard 39 - Financial Instruments: Recognition and Measurement. Failure to endorse this Standard in full, thereby creating a variant of the IASB standards that would apply only within Europe, would seriously damage European capital markets by raising the cost of capital throughout the European Union. This could, in turn, inhibit the growth of European companies.

As an organisation UKSIP has consistently supported the principles that underlie IAS 39. Even so, IAS 39 has provoked much debate and the ensuing lengthy consultation process and the changes that have been proposed to the original standard show that due process has been followed. After due consideration, the IASB has also accepted a number of the early criticisms and the version now proposed does represent a compromise on the original proposal. In UKSIP's view, further compromise could undermine the underlying principles that the new IFRS are seeking to address.

UKSIP believes that it is vital that IFRS are of a high quality and are set by an independent professional body. They should represent a true and fair view of the financial position of a business entity and should not be derived from a process that simply mediates between interested parties. As Lord Penrose said in his report on Equitable Life:

"Proposals, exposure drafts and similar consultation exercises are not a substitute for normative standards. The continuing failure to produce acceptable standards and secure their implementation is a failure in a professional duty owed to the public.....Those with the responsibility to

produce appropriate standards must have it impressed on them that what is required are practical standards of general application that will provide consumers of accounting information and their advisers with the ready means of assessing the financial positions of the providers of financial products. A search for perfection in this area will fail. To await agreement among the wide range of interests affected will involve interminable delay.”

UKSIP encourages the UK Government to do all in its power to ensure that IAS 39 is endorsed in full.

Please do not hesitate to contact us if you would like further clarification of any of our views. In view of the public interest in this matter, UKSIP may wish to brief the media about the content of this letter.

UKSIP is a professional organisation whose main aim is to foster and maintain high standards of professional ability and practice in investment analysis, portfolio management and related disciplines. It currently has over 4,500 members who work or have an interest in the UK financial services industry. UKSIP is the second largest member society worldwide of the CFA Institute and the largest in Europe. The CFA Institute is a global non-profit organisation of more than 67,000 investment professionals and is best known as the organisation that administers and develops the Chartered Financial Analyst (CFA[®]) Programme. UKSIP also oversees the Investment Management Certificate (“IMC”) the benchmark qualification for those working in investment management in the UK, a qualification currently held by over 15,000 investment professionals. UKSIP members who successfully completed UKSIP’s former Associate examination, which was similar to the CFA, can use the designation ASIP.

Yours sincerely

A R Good ASIP
Chairman, Accounting Advocacy Committee

J E Rogers
Chief Executive