Sir, The Deputy Prime Minister is seeking views on repealing burdensome regulation. A good place to start is the International Financial Reporting Standards (IFRS). Before IFRS the accounting ground rules were set down by Parliament and their interpretation was delegated to the UK Accounting Standards Board, with the objective that accounts gave a true and fair view. IFRS, introduced in 2005 via EU regulations, undid that and is recognised to have been a significant factor in mispriced credit going unchecked, leading to the financial crisis. Neither boards nor regulators have been successful in working with it.

In its commencement phase, the “fair weather” model significantly overstated bank profits, resulting in excessive dividends. It also obscured true gearing and capital-destructive business models. In “storm” mode it accelerated and exaggerated losses, resulting in taxpayer-funded recapitalisations in the US and the UK. Other IFRS outputs are irrelevant to how businesses are run and make it difficult to understand the accounts of a business. The Financial Services Authority and Financial Reporting Council have recently criticised the auditors of the UK banks for a lack of scepticism but auditors have been required to audit in compliance with a flawed accounting model.

As the UK is locked into this system because the EU requires it, the Government should fight to overturn it. Despite the damage IFRS has already done, the UK’s own accounting standard setter is still proposing to extend the burden of IFRS onto all companies, including small businesses, by lobbying for it in Europe.

It is time that accounting standards were subject, once again, to scrutiny by a wider peer group than of late and, if necessary, by Parliament. IFRS conflicts with the UK’s traditional “true and fair” view, and in practical terms has had adverse consequences. In our view it is time for a significant rethink.

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