



Foreign & Colonial Investment Trust PLC

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Peter Godsall
Accounting Standards Board
5th Floor, Aldwych House
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27 January 2010

Dear Mr. Godsall,

The Future of UK GAAP

Foreign & Colonial Investment Trust PLC (FCIT) is the oldest and one of the largest Investment Trusts in the UK, with net assets of almost £2billion invested throughout the world. It was a founding member of the Association of Investment Companies (AIC) and has had representation on the Board of the AIC for over 20 years. The Fund Manager of FCIT, Jeremy Tighe, is currently a Deputy Chairman of the AIC.

FCIT encouraged the AIC in the development of an Investment Company SORP and immediately adopted the recommendations of the first SORP, in 1995. Compliance with the SORP and subsequent revisions has been maintained annually by FCIT since that date. The Board believes that the SORP disclosures have given the Users and Auditors of FCIT's accounts "added value" in terms of understanding and interpreting the Company's (and Industry's) results.

With this background in mind, the Board of FCIT wishes to express its strong disagreement with the ASB's recommendation, in paragraph 2.36 of its Policy Proposal document on "The future of UK GAAP", that the AIC SORP "should be withdrawn and investment companies should apply IFRS." Our concerns and reasoning are set out below.

The AIC SORP: Financial Statements for Investment Trust Companies and Venture Capital Trusts ("the AIC SORP"), issued in January 2009, is an update of previous Investment Company SORPs. Each such document has been drawn up under the guidance of professionals within the Investment and Venture Capital Trust Industries, the Accounting profession and User Groups, and has been endorsed by the ASB. Members of the AIC have encouraged the SORP's development, have adopted its recommendations and have paid for the costs of creating and updating it over the past 15 years, through their subscriptions to the AIC.

The Foreword to the AIC SORP contains the following statement: "The aim of the . . . SORP . . . remains . . . to seek to harmonise accounting practice within the industry, by identifying and setting out best practice across a wide range of issues." The ASB has described Accounting Standards as being "primarily applicable to general purpose company financial statements" and "for the benefit of users, preparers and auditors of financial information". Importantly, in its introduction to the AIC SORP, the ASB notes the need for "further guidance" in the form of SORPs "in order to implement accounting standards effectively" in particular industries or sectors. We agree with the ASB in that we believe the AIC SORP admirably achieves this aim within the Investment Company sector.

The SORP has been accepted and implemented by Investment Companies across the Industry, whether they are listed in the UK and applying UK GAAP, or listed outside the UK and applying International GAAP (IFRS). Shareholders, tax authorities, regulators, potential investors and other readers are able, as a consequence of its broad acceptance and implementation, to understand, compare and distinguish Investment Company profits (for example) which are distributable by way of dividend from those which are not. The Industry-specific accounting issues dealt with in the AIC SORP remain unique and sufficiently complex to justify elucidation within a SORP. In other words, we believe a case exists for the SORP to remain in place because there is a "clear and demonstrable need arising from sector specific issues."

Equally importantly, the SORP is used as a reference point by tax and regulatory authorities and lending institutions in the UK. For example, lenders are able to rely upon the consistency of Investment Company SORP accounting for measuring their lending ratios, whilst HMRC refers directly to annual accounts in the process of gaining comfort over Investment Companies' compliance with taxation rules on distributions. Industry analysts are also able, as a consequence of the uniform application of the AIC SORP, to produce meaningful comparisons of Companies' performance, analysed between "capital" and "revenue" returns and linked to the individual companies' Objectives and policies.

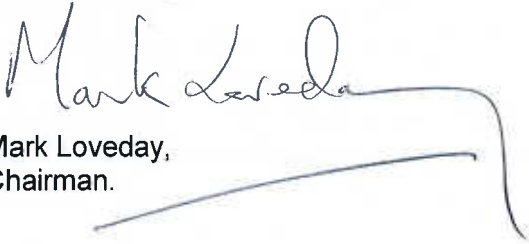
The evidence, both factual and anecdotal, points to the accepted importance of the AIC SORP to the Industry as well as to the readers and users of Investment Company Accounts. There is little doubt that the SORP provides benefits "in terms of contributing to the . . . aim of improving financial reporting." The ASB has expressed its belief in the past, in writing, in the role of SORPs in effective implementation of standards. The fact that the ASB has recommended in paragraph 2.36 that it should retain oversight of the SORPs for Insurance businesses, amongst others, but not for the AIC SORP, must inevitably lead to a down-grading of the AIC SORP's "status". Without the ASB's endorsement, and without the compulsion under UK or International GAAP for an Investment Company to state whether or not it has complied with the SORP, the AIC SORP would inevitably lose a degree of credence and the accounts of Investment Companies may become less compliant and less comparable.

The consultation document refers to the possibility of IFRIC becoming the reference point for authoritative interpretations of IFRS in future. Whilst IFRIC is an authorised Accounting Body, we are not convinced that the replacement of an ASB-backed SORP with a combination of non-compulsory AIC recommendations and IFRIC interpretations would be helpful. Investment Companies are UK-centric in that their modus operandi is as much bound by UK taxation rules as by other regulatory and accounting rules. We are concerned that IFRIC may be less likely to give weight to these unique characteristics and that their interpretations may in any event be slow in development due to IFRIC's busy international schedule.

In conclusion, we believe it is vitally important that the ASB recognises all SORPs as equal in status and compulsion. The AIC SORP should continue to be recognised by an official accounting body with an understanding of UK-specific regulatory issues and should continue to be updated under the auspices of that body. Without such backing, we believe that a lack of comparability may be allowed to develop within Investment Company accounting, to the detriment of investors, shareholders, lenders, regulators and other bodies.

We thank you for this opportunity to comment on the ASB's proposals and would welcome the opportunity to discuss this issue further.

Yours Sincerely

A handwritten signature in blue ink that reads "Mark Loveday". The signature is written in a cursive style and is positioned above a horizontal line that extends to the right and then curves downwards.

Mark Loveday,
Chairman.