Mr Hans Nailor
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X SAL

13 September 2002

Dear Mr Nailor

Financial Reporting Exposure Draft 27
Events After the Balance Sheet Date

The Association of Investment Trust Companies (AITC) welcomes the opportunity to submit its views on the above Exposure Draft.

The AITC is the trade association that represents the interests of investment trust companies (ITCs). ITCs are public limited companies, listed on the London Stock Exchange, whose primary business is investing in a diversified portfolio of shares and securities of other companies. They are therefore one of the main forms of collective investment available in the UK, for both institutional and retail investment, along with authorised unit trusts (AUTs) and open-ended investment companies (OEICs). The AITC currently represents the interests of around 300 members and the industry as a whole has assets under management of approximately £60bn.

In response to paragraph 17(1) the AJTC does not agree with the proposal to issue a new UK accounting standard on events after the balance sheet date in as much as we are most concerned by the main proposal that where an entity declares dividends after the balance sheet date the entity concerned should not recognise those dividends as a liability at the balance sheet date.

The AITC believes that the current position as set out in Schedule 4, paragraph 3(7) of the Companies Act 1985 and SSAP 17 is entirely satisfactory from the perspective of investors, investors usually have an expectation of both capital growth and dividend payments when they purchase shares in an entity. Therefore, when a board recommends a dividend investors have every right to expect that this will be recognised as a liability in the accounts.

THE ASSOCIATION OF INVESTMENT TRUST COMPANIES

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We believe the key point is that equity dividends are not an expense, but rather an appropriation of profits. It is right that the directors' intentions as far as the profits of the year are concerned are properly set out on the face of the Profit & Loss account for the year in which the profits arise. It is less than helpful, and detracts from the usefulness of the accounts, if the reader has to perform a reconciliation in order to fully appreciate how much of the period's profits have been paid out and how much retained. Therefore, if the dividend payment were not to be shown as a liability in the accounts we believe that it would not reflect the underlying economic reality of the transaction.

In addition to the general point set out above, ITCs, because of their tax and company law position, could be affected by the proposed changes in a unique way and the AITC would need confirmation from the DTI and the Inland Revenue that our Members would not be adversely affected. The particular issue that we have in mind concerns the distribution tests under ICTA 1988 section 842 [1)(e) and Companies Act 1985 section 266 (2) (d). The tests are normally based on the ITC's accounts, which would of course, following an implementation of the proposals, show a different position to that as at present. We would expect to be able to reach a satisfactory conclusion with both parties but until the issue has been fully explored the concern remains. There may also be other issues that will come to light once detailed discussion commences.

We intend to send a copy of this letter to both the DTI and the Inland Revenue for their initial thoughts and comments.

We hope you find our comments of assistance and if you would like any further clarification of our views please feel free to get in contact.

Yours sincerely

Paul Dawson
Technical Manager

cc Mr D Dean
Company Law and Investigations Directorate Department of Trade and Industry