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Press Release – May 17th 2011

Financial Services (Regulation of Derivatives) Bill – published May 13th 2011

A group of MPs, led by Steve Baker, seek to expose and address fundamental problems of the British banking system by presenting this Bill to Parliament. Cobden Partners is delighted to have helped by researching and producing the Bill.

Banks are producing rule compliant but false accounts which grossly inflate their reported profits and capital bases. Three specific examples:

a) Banks record unrealised gains in investments as profits, justified under mark to market and mark to model accounting rules;

b) Banks are unable to take prudent provisions for expected loan losses under the EU's IFRS accounting standards, rules which they have chosen to adopt;

c) Banks fail to deduct from reported profits expenses such as staff compensation. This has led to Barclays being reported to accounting regulators by investors this week.

All three, and many similar accounting misrepresentations are rule compliant. Therefore the rules should be changed. The attached Bill will cure these abuses by requiring parallel accounts to be prepared under UK Companies Act law. The Bill will not breach any of our EU obligations.

Steve Baker MP says:

"I am convinced that the present institutional design of the banking system is the greatest source of injustice in society, the root cause of our boom and bust cycles, and a potent force leading to widening wealth inequality. The present banking system's gross expansion of credit is also a key enabler of the mass wastage of natural resources.

I am convinced that this Bill will reveal the true health of our banking system, and help our Government deliver the far reaching promised banking reforms.

I am extremely grateful to Cobden Partners for their invaluable support in preparing this Bill. Without them it would not have been possible."

Lord Flight, member of the **House of Lords Select Committee on Economic Affairs** says:

"I very much hope that Steve Baker's Private Member's Bill which has its next reading on 10th June will serve to raise the profile of the campaign and correct the serious problems which IFRS has caused. The Bill, effectively, neuters IFRS by requiring Financial Services companies to prepare parallel accounts under UK GAAP. Clause 2 of the Bill would also allow companies to switch back to UK GAAP.

It is important to note that IFRS is not an "international obligation" – at a limited company level it has been an option. France and Germany have outlawed IFRS and Italy, having required IFRS is now requiring its Ministry of Justice to vet IFRS accounting.

It is now clear that IFRS accounting was a significant contributor to the banking crisis as it positively incentivised mis-pricing risk and the omission of the cost of credit default. At its simplest bank profits were overstated in good times and losses exaggerated in bad times. IFRS 17 has also contributed to the demise of defined benefit pension schemes and the decline in pension saving by requiring pension liabilities to be discounted to present value at prevailing prime bond yields, rather than at the higher, blended, expected rate of return on investment portfolios. Also the IFRS requirement to charge the notional cost of options to the Profit & Loss account, rather than requiring a full analysis of the resulting equity dilution, serves to distort reported profit's figures in relation to actual trading and to obscure to shareholders the real dilution cost of option issues".

Gordon Kerr, Founder of Cobden Partners says:

"Without the exposure of the true state of banks' accounts as set out in the Bill, taxpayers, regulators and scrutineers will remain unable to assess or properly regulate our banks.

Steve Baker is one of the most economically literate MPs that we have. His Bill should be given Government and cross party support."

Notes to Editors:

- 5 days after the Bill's First Reading the House of Lords' Select Committee on Economic Affairs produced a detailed report summarising 10 months' investigations into broadly the same concerns. This Bill should attract this Committee's support and will address their accounting concerns.

http://www.publications.parliament.uk/pa/ld201011/ldselect/ldeconaf/119/119.pdf

- The Bill is unlikely to be allocated time for its second reading on June 10th without Government support. Your promotion and coverage of Steve Baker's efforts would therefore be most welcome.