GO Investment Partners Group

Sir,

Jonathan Ford and Madison Marriage have done us an important service by setting out so clearly in their article ("A return to prudence", Aug 29) why we need to restore prudence to accounting. Prudent accounts help prevent overstatement of profit and capital, and this underpins the UK's capital maintenance regime (by ensuring dividends are not distributed out of capital) to support long-term investment and financial stability.

Setting aside for a moment the legal question over whether International Financial Reporting Standards (IFRS) meets the "true and fair view" standard in law, it is hard to see how any long-term investor would not wish to know how secure their capital is by differentiating between realised and unrealised profits and capital. Likewise, if companies expect future liabilities, shareholders surely would wish this to be captured in prudent accounts.

Fortunately, to restore prudence, we need not throw out IFRS. Supplementary disclosure about what portion of profits has been realised in cash (or near cash), and what share of capital is available to distribute as dividends would provide vital visibility.

While debates over the legality and slavish compliance with IFRS will continue, our time may be better spent addressing these gaps in disclosure. In the end, accounts must underpin trust in capital markets.

What the FT series on audit and accounting has shown, above all, is that trust in the system is breaking down. It is time we take a closer look at whether our system of capital maintenance is being enforced as one key step in restoring trust.

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