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Dear Peter,

ASB Consultation Paper: THE FUTURE OF UK GAAP

Thank you for providing us with the chance to comment on the consultation paper: the Future of UK GAAP. We are a firm of Chartered Accountant involved with a large number of not-for-profit organisations including Credit Unions, Charities and Housing Associations. Our replies to the consultation questions are set out below:

Question One

Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

In our opinion, amendments would be required to both proposals. The proposal as set out by the Board is preferable, however, it should be amended so as not to include Credit Unions. We do not believe that Credit Unions should be included within tier 1 as they only take deposits and lend to their members and not to the public as a whole. These are membership organisations and imposing an increased regulatory burden will inflict additional costs on Credit Unions which outweigh any benefit to the organisation and their membership who are the main readers and users of the accounts. Credit Unions are regulated by the FSA who obtain the financial information that they require from the Annual Return submitted by Credit Unions rather than the statutory financial statements. Increased accounting requirements therefore will not be of benefit to the regulator. Additional time and financial costs would be detrimental to Credit Unions and the benefits that they provide to their members.

We therefore believe that a size criteria, similar to the current large company size criteria requires to be included within the deposit taking definition to avoid these entities being wrongly included within Tier 1. Specific mention of Credit Unions should also be deleted from the definition of public accountability.

Question Two

Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

Please see our previous response regarding the treatment of Credit Unions.

Question Three

Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?

We agree that wholly-owned subsidiaries that are publically accountable should apply EU adopted IFRS as otherwise parent companies may restructure certain activities that are

operated by their subsidiaries in order to avoid any related disclosures required under EU adopted IFRS.

Question Four

Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures? If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.

Please see previous response.

Question Five

Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?

We agree with the Board's proposals to use IFRS for SME for entities within Tier 2 for the reasons set out within the consultation document.

Question Six

Do you agree with the Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments you think should be made, as well as the reason for recommending these amendments.

If the Board is confident that, on review, the IFRS for SME is appropriate for Tier 2 entities and complies with legal requirements then the IFRS for SME should be adopted wholesale.

Question Seven

Do you agree with the Board's proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

We agree that any Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs as we do not see the advantage to the users of their accounts for requiring them to use EU adopted IFRS.

Question Eight

Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

We believe that it is too early to remove the FRSSE and therefore it should remain in force until the IFRS for SME has been tested for appropriateness to small entities.

Question Nine

Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?

With UK Accounting Standards being replaced by IFRS, there will be no UK specific

standards for any updates to the FRSSE to be based upon, and accordingly the FRSSE will have a limited life. If after the implementation of IFRS for SME the standard is not found to be appropriate for smaller entities then the ASB should consider a new FRSSE based on International Accounting Standards.

Question Ten

Do you agree with the Board's current views on the future role of the SORPs? If not, why not?

We believe that there is a need for SORPs for the not-for-profit sector but agree with the Board's proposals for commercial entities.

Question Eleven

Do you agree with the Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit issues?

International Accounting Standards were not created with Public benefit entities in mind and there is therefore a need for additional accounting standards to cover the issues missing from IFRS. We would therefore support a new public benefit standard which covered areas not otherwise currently covered by IFRS.

Question Twelve

If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

Please see our answer above.

Question Thirteen

Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

We feel that this is an area where further research is required and believe that a full list should be constructed following consultation between the ASB and the appropriate regulatory or trade bodies for public benefit entities.

Question Fourteen

The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

Additional guidance is needed for the preparation of accounts for the not-for-profit sector and therefore SORPs or some form of additional guidance notes are required. We believe that the Board should take a proactive approach in confirming guidance is consistent with UK GAAP. The situation may otherwise arise that if SORPs are not consistent with IFRS, entities may be punished for taking misleading advice from the SORPs where they believed they were

complying with all the relevant guidance.

Question Fifteen

If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

As a firm of Chartered Accountants we would expect that these changes would lead to substantial compliance costs. It is therefore important that the burden on organisations is not any higher than necessary and accordingly the FRSSE should not be eliminated immediately and in our opinion Credit Unions should not be classed within Tier 1.

Question Sixteen

What are your views on the proposed adoption dates?

The proposed adoption dates do not provide sufficient time for organisations to prepare for the change. If the Board managed to produce the final version of UK GAAP by the end of the year as proposed, then this only allows just over a year before the whole of UK Accounting is radically changed. This timetable will not allow organisations, especially smaller entities and not-for-profit organisations, time to prepare for the change without undue financial costs. We feel that it is more important that such an important change is properly implemented rather than rushed.

We hope that the above comments are of use for the consultation process. If you require any further information please do not hesitate to contact us.

Yours faithfully,

ALEXANDER SLOAN