



Mr P Godsall
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Consultation Paper: *Policy Proposal: The Future of UK GAAP*

Dear Mr Godsall,

Deutsche Bank would like to thank the ASB for the opportunity to comment on the Consultation Paper *Policy Proposal: The Future of UK GAAP* ("the CP"). Deutsche Bank has many subsidiaries in the UK and the future accounting regime in the UK is of great importance to us.

We broadly agree that UK accounting standards should converge with IFRS as maintaining two different sets of books, one for the stand-alone financial statements and another for the group accounts is a costly exercise. We are also in agreement with the ASB's definition of public accountability and the proposal in the CP that all entities which meet this definition must file a full set of IFRS financial statements.

Whilst we support the option of applying the IFRS for SME's for non publicly accountable entities (tier 2 entities) we strongly believe that in the case of entities which are not publicly accountable and are wholly owned, certain exemptions available in UK GAAP should be maintained. The basis for our recommendation is that if a subsidiary is deemed not to be publicly accountable and is wholly owned, the only key stakeholder is the parent, who should already have the information in question. Specifically, the exemptions that we would retain are the exemptions from producing consolidated financial statements, cash flow statements, and related party disclosures. We support global accounting standards and therefore would prefer that the ASBs work together with the IASB to codify the exemptions into the IFRS for SME standard. However, absent this we would support the ASB maintaining the above named exemptions for UK financial reporting.

Finally, given the number of changes that are currently being discussed by the IASB for full IFRS relating to such key topics such as consolidation, financial statement presentation, and financial instruments derecognition, classification and measurement, and hedging we would ask that the adoption date for the ASB's proposal be pushed out beyond the January 2012 effective date specified in the CP. Rather, the ASB should seek to allow adequate time for the IASB to review

the new standards and align the accounting in the revised IFRS for SMEs. This would alleviate the operational burden on tier 2 entities of having multiple transitions to IFRS for SMEs standard. Similarly, by extending the date beyond 2012 the ASB would ensure that the tier 1 entities transitioning from UK GAAP to full IFRS would only have to transition once based on the new standards.

Our responses to the specific question posed in the CP are attached in the appendix to this letter.

We hope you find our comments useful and relevant, and look forward to continuing to work with you in the future. Should you want to discuss the contents of this letter in more detail, please do not hesitate to contact Cynthia Mustafa at the following email address cynthia.mustafa@db.com and phone number 020 754 50978.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Cynthia Mustafa', written in a cursive style.

Cynthia Mustafa
Managing Director
Global Head, Accounting Policy and Advisory Group
Deutsche Bank AG

Appendix

Question 1 – Which definition of Public Accountability do you prefer: the Board’s proposal (paragraph 2.3) or the current legal definition (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?

We prefer the Board’s definition of public accountability rather than the current legal definition. We agree with the ASB’s addition to the IASB’s definition: if an entity is a deposit taking entity, then depositors may be considered finance providers. These lenders will have as much interest in the performance and position of the entity as parties who hold listed debt or equity instruments. Therefore, we agree with the notion that deposit taking entities should provide full disclosure.

We do not think that public accountability should be based on size. The debt providers of those entities that do not meet the definition of public accountability will most likely not rely on audited accounts, but will have the ability to access up-to-date management accounts, amongst other things, to assess creditworthiness. If an entity is not publicly accountable, but is large then it is quite unlikely that customers of such an entity will actually review their financial statements in great detail, if at all.

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

We agree with the notion that publicly accountable entities, so defined, should be included in tier 1 and, accordingly, should file full IFRS financial statements.

Question 3 – 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 which are publicly accountable should apply IFRS. Overall, we support one single set of global accounting standards and as such are opposed to there being a difference between EU adopted IFRS versus IFRS as promulgated by the IASB.

Question 4 – 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.

As stated in our response to question 2, we agree that all publicly accountable entities, whether a wholly owned subsidiary or not, should file full IFRS financial statements and not therefore be allowed reduced disclosures. If one maintains that an entity is publicly accountable and it should be allowed reduced disclosures, then we would argue that the definition of public accountability is not appropriate. If an entity has to account to the public, then one means by which it communicates with the public is through its audited financial statements. Consequently, those financial statements should be as full a disclosure of the entity’s state of affairs as possible.

Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?

We agree that it is time that UK accounting standards were converged with IFRS and as such support the proposal that IFRS for SMEs should be used by tier 2 entities, subject to our answer to question 6.

If an entity is not publicly accountable, then it is fair that that entity should be permitted some relief from full IFRS disclosures.

Our preference would be for tier 2 entities to apply the recognition and measurement rules of full IFRS (subject to our answers to question 6), but to produce reduced disclosures. Currently, there are differences in measurement between full IFRS and the IFRS for SMEs, and whilst these particular differences will be removed with the next update of the IFRS for SMEs, there will probably always be some differences because the IFRS for SMEs will only be updated every three years. This means that adjustments will have to be made in consolidating tier 2 entities into our group financial statements, which is an inefficient process. Whilst we appreciate that we could choose to apply full IFRS to our tier 2 entities, this comes with the increased cost of producing additional irrelevant disclosures.

Question 6 – 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 that should be made, as well as the reasons for recommending these amendments.

For entities which are not publicly accountable, and are a wholly-owned subsidiaries of a group that produces IFRS consolidated financial statements, we question whether some of the requirements of the IFRS for SMEs are necessary and who they are intended for. Specifically, we have the following issues for the ASB’s consideration:

- We understand that the ASB is considering how the IFRS for SMEs interacts with the EU 4th and 7th Directives. We believe that a tier 2 entity, that is 100% owned by an entity that produces full IFRS consolidated financial statements, ought to be exempted from producing consolidated financial statements itself. The parent ought to know the state of affairs of its direct and indirect holdings before audited financial statements are published, and group financial statements will be of limited use to any other reader of the financial statements since it has already been determined that the entity in question is not publicly accountable.
- Moreover, we do not believe that cash flow statements provide useful information for wholly owned, non-publicly accountable entities. Consistent with the reasoning in FRS1, we believe that in instances where the parent group holds 90 percent or more of the voting rights in the subsidiary, it is likely that the liquidity and solvency of the subsidiary will

depend on the group rather than its own cash flows. Therefore, we are opposed to a requirement for cash flow statements for non-publicly accountable entities which are at least 90% or more owned by entities which produce consolidated financial statements.

- In the case of related party disclosures, we believe that in instances where all the entities' voting rights are controlled within a group of entities, users would be sufficiently alerted by the fact that the exemption was invoked and to the possible existence of related party transactions, given the close parent-subsidary relationship and, as such, would request further information from the entity. If the entity is not publicly accountable, we question whether the cost of providing such information on an ongoing basis would ever exceed the potential benefit to users.

As a general rule, we do not agree with carve-outs of accounting standards. However, whilst we appreciate that the ASB is trying to minimise differences between UK GAAP and IFRS, in this one exceptional circumstance, we would ask that the ASB introduce a scope-out from the above requirements, and when the IFRS for SMEs is due for amendment, lobby the IASB to include the scope-out within the standard.

Question 7 – 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 with the definition of publicly accountable (see question 1), therefore we do not think that large non-publicly accountable entities should be required to adopt full IFRS solely by virtue of their size. If one believes that such entities are not tier 2 entities, then one must disagree with the definition of publicly accountable.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

We understand that this is a practical expedient and agree with it subject to our answer to question 9.

Question 9 - 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?

There is no theoretical basis to keep the FRSSE once the FRSs/SSAPs from which it is derived cease to be part of UK GAAP. Subject to our answer to question 5, we agree that the IFRS for SMEs should replace the FRSSE. However, we are also aware that the work the EU is doing on small and medium-sized entities may mean that some of those entities that currently apply the FRSSE may be exempt from producing financial statements at all.

Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not?

We agree with the Board’s current view on the role of SORPs, i.e. that IFRIC is the body that should provide authoritative interpretations of IFRS but there is also a need to “fill in the gaps” where there is no IFRS.

Question 11 – 14

No comment.

Question 15 – 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 stated earlier, we agree that UK GAAP should converge with IFRS as it is inefficient to maintain records under two accounting systems.

Nevertheless, such a transition necessarily comes with costs; many of the key costs and concerns we have with transitioning are addressed in question 16. However, in addition to those are the systems costs: we would prefer the IFRS for SMEs adoption date to be deferred so that our group accounts and stand-alone entity accounts have minimal classification and measurement differences. If the ASB defers adoption of the IFRS for SMEs until it converges with the major changes taking place in full IFRS, this will alleviate a huge potential systems burden for us.

Question 16 – What are your views on the proposed adoption dates?

We believe that the proposed adoption date should be pushed out beyond 1 January 2012 for the reasons listed below.

Given the number of changes that are currently being discussed by the IASB for full IFRS relating to such key topics such as consolidation, financial statement presentation, and financial instruments derecognition, classification and measurement, and hedging we believe it appropriate that the ASB not require entities to transition too early. By extending the date beyond 2012 the ASB would ensure that the tier 1 entities transitioning from UK GAAP to full IFRS only have to transition once based on the new standards. Moreover, we believe that requiring UK entities to transition to old IFRS and then again to new IFRS will be confusing to users and as such are opposed to the proposed effective date of January 2012.

There are a number of accounting differences between the IFRS for SMEs and full IFRS, and whilst we appreciate that this will always be the case to some extent, since a number of very

important standards are in a state of transition and the IFRS for SMEs will only be updated every three years, we would like to minimise accounting differences on initial adoption, if at all possible. The ASB should seek to allow adequate time for the IASB to review the IFRS for SMEs standard and to align the accounting to the new IFRS standards. This would alleviate the operational burden on tier 2 entities of having multiple transitions to the IFRS for SMEs standard. The following paragraphs outline the significant current differences which are of concern to us.

IFRS 9

If applying the IFRS for SMEs in stand-alone financial statements of wholly-owned subsidiaries, we would always choose to adopt the financial instruments recognition and measurement criteria of full IFRS so as to minimise adjustments on consolidation.

Without the ASB deferring adoption of IFRS/IFRS for SMEs, in our stand-alone financial statements we would have to apply the recognition and measurement provisions of IAS 39 (extant) and transition to IFRS 9 shortly afterwards (effective date of 2013). We would prefer not have to do two IFRS transitions within a short period of time.

IAS 39 (other)

As well as the classification and measurement provision of IAS 39, the derecognition, impairment, and hedging provisions are changing in the near future too. Again, we would prefer not have to do two IFRS transitions within our standalone financial statements within a short period of time, and kindly request a deferral.

IAS 12

Many of the ideas that were in the IAS 12 ED are in the IFRS for SMEs; however, the work on the IAS 12 ED has, to our understanding, ceased. We would prefer deferring the adoption of IFRS for SMEs until such time as uncertainty over the IAS 12 project is resolved and the two standards are consistent.

Tax

The starting point for UK company tax returns is the company's accounting profit. It is currently unclear how HMRC will account for the transition from current UK GAAP and therefore it is not possible to do tax planning at this point to accommodate the proposed change in accounting framework. The requirement to do comparatives in 2011 would mean that the tax consequences should be known as of 2011 and this appears unlikely given the uncertain status today of how the proposals will be viewed by the HMRC.

Regulatory

It is currently unclear to us what the effect of transitioning from current UK GAAP will have for Regulatory purposes.