

FAO: Peter Godsall  
Accounting Standards Board  
5<sup>th</sup> Floor  
Aldwych House  
71 – 91 Aldwych  
London  
WC2B 4HN

28 January 2010

**Our ref: MCW/KJM**

Dear Sirs

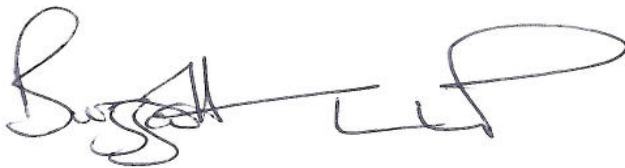
**ASB Policy Proposal - The Future of UK GAAP**

We are pleased to have the opportunity to respond to the ASB consultation paper on the Future of UK GAAP. We broadly support the proposals within the policy proposal in relation to the adoption of IFRSs and the IFRS for SMEs standard in the UK.

Please find attached our responses to the specific questions asked in the consultation paper.

If you would like any further information, or have any queries in relation to the responses given, please contact either Mark Worsey (Technical Partner) or Kay Morrow (Technical Director).

Yours faithfully



## The Future of UK GAAP

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### Questions

- 1. Which definition of Public Accountability do you prefer: the Board's proposal or the current legal definitions? 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 agree with the Board's proposal, as the inclusion of deposit taking entities, such as banks, is considered a helpful addition. However see answer to question two.

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

The addition of size criteria would be appropriate.

Some of the entities which would be within the definition, such as credit unions, may be small organisations with limited external interest in their financial statements and therefore their inclusion in Tier 1 would be unnecessarily burdensome.

- 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?**

Where the wholly-owned subsidiaries are publicly accountable and would, in their own right, be considered to be within Tier 1, then EU adopted IFRS should be applied. For wholly own subsidiaries which are not publicly accountable IFRS for SMEs should be applied.

- 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 rational for these reductions.**

For publicly accountable entities EU adopted IFRS should be applied in full regardless of whether the entities are subsidiaries.

- 5. Do you agree with the Board's proposal that the IFRS for SME's should be used by Tier 2 entities?**

Yes.

- 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?**

Yes. IFRS for SMEs should be adopted in full with no UK "carve out."

However, there are areas where we would welcome amendments within the IFRS for SMEs standard, e.g. the inclusion of an option for companies to revalue property, plant and equipment and an option for small entities to be exempt from the preparation of a cash flow statement.



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

Large Non-Publicly Accountable Entities should be required to apply EU adopted IFRS.

When considering what is categorised as 'large', the Audit Inspection Unit has developed a definition for 'Public Interest Entities' which includes a size criteria, and we suggest similar size criteria should be applied. Below is an extract from 2009/10 AIU scope which provides a 'large' definition.

"Unquoted companies, groups of companies, limited liability partnerships or industrial and provident societies in the UK which have either:

- a) Group turnover in excess of £500million; or
- b) Group long term debt in excess of £250million and turnover in excess of £100million."

The AIU scope also includes other organisations such as charities with income over £100m. We do not consider that charities should be included within Tier 1, as it important to maintain comparability across the charity sector and we welcome the proposals set out for the creation of a separate public benefit standard which would be applicable to all charities.

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

For a transition period only. Over time this should move to being a reduced version of IFRS for SMEs. The FRSSE was designed to be a reduced version of UK GAAP for smaller entities and now includes UK Companies Act requirements. If the UK accounting standards that it is based on are no longer in existence then, over time and as IFRS evolves, there may be an increasing divergence in the accounting treatments adopted by small and other sized companies.

Retaining the FRSSE as it stands would not be an appropriate long term solution, however we believe an 'IFRSSE' for very small companies would be appropriate in due course.

**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**

If an 'IFRSSE' version of the IFRS for SMEs is not to be produced, then in time it should be required that those entities which currently apply the FRSSE move to IFRS for SMEs.



**10. Do you agree with the Board's current views on the future role of SORPs.**

Generally, yes.

The reduction in the number of SORPs is welcomed. However, in relation to the proposals regarding Accounting by Limited Liability Partnerships, as the long term future of the FRSSE is not agreed, we consider that it would be more appropriate to maintain a separate SORP for LLPs rather than try to combine LLP requirements into the FRSSE.

In relation to public benefit entities, the SORPs currently in existence, particularly for the charity sector, are considered to be valuable documents, as they provide the key reference point for those preparing financial statements for those entities. Our preference would be that a SORP is maintained for the charity sector. The level of further detail required in SORPs for sub-strata of public benefit entities will be dependent on the existence and extent of a public benefit entity standard and all SORPs should be in full compliance with such a standard.

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

Yes, we agree that there should be a separate standard. The scope of those entities which should adopt the public benefit entity standard should be clarified so that it is clear whether those entities, such as many social enterprises, which share many of the characteristics of a not for profit entity are clear which Standard should be applied.

**12. 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?**

Preference is for a standalone standard for public benefit entities.

**13. 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?**

Agreed with the issues listed, subject to the following points:

- The revenue section should explicitly cover the treatment of performance-related grants and funding received for capital projects.
- The valuation of assets should include the treatment of heritage assets and the treatment of programme-related investments.
- A section on Concepts and Pervasive Principles should also be included, as the section in the IFRS for SMEs standard is aimed at for-profit entities.



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**14. 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?**

Yes

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**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 statement (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?**

n/a

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**16. What are your views on the proposed adoption dates?**

Agree with the proposed adoption dates for IFRS for SMEs; however we consider that it is important to align the adoption date for IFRS for SMEs with the date for adoption of the public benefit entity standard.

