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Dear Peter

## **CONSULTATION PAPER**

### **POLICY PROPOSAL: THE FUTURE OF UK GAAP**

CIPFA is pleased to provide comments on the proposals in this ASB Consultation Paper.

While initially focussing on that part of the business sector which are not currently required to use EU adopted IFRS, the paper also discusses three separately regulated public benefit areas or sectors which are currently subject to separate SORP treatment under UK GAAP.

This response focuses on the public benefit entity proposals, which are an area where CIPFA has particular knowledge and expertise.

The proposals have been reviewed by CIPFA's Accounting and Auditing Standards Panel, and specialist panels for the Charity, Further and Higher Education and RSL sectors. On 29 November 2009 we were very pleased to hold a discussion event which was attended by CIPFA panel members, auditors, regulators and preparers from the sector, at which the ASB chair made a presentation on the ASB proposals and other speakers reviewed the implications for each of these three areas of the public benefit sector.

CIPFA strongly supports the ASB work in this area.

CIPFA agrees with the ASB that there is a gap in international standard setting. IFRS are not standards which public benefit entities can straightforwardly apply without additional guidance. While CIPFA has repeatedly suggested to the IASB that it would be better if its standards were sector neutral, or more sector neutral, this is not currently the case, nor is it a realistic prospect in the foreseeable future. CIPFA has supported standards initiatives which fill the gap for the public sector, both internationally through the International Public Sector Accounting Standards Board, and in the UK through the development and review processes for the Government Financial Reporting Manual (FReM) and other related manuals and codes which apply IFRS to all the different types of government reporting entity in the United Kingdom.



INVESTOR IN PEOPLE

ASB development of a UK Financial Reporting Standard for public benefit entities outside the public sector would fill the remaining gap and would be extremely helpful. All of the CIPFA panels and other sector stakeholders we have spoken to support the ASB in its proposals.

Comments on the Board's detailed questions are provided in the attached annex. On some of the questions there were a variety of views among CIPFA stakeholders, particularly on the size and content of the Public Benefit standard. In responding to the questions on the type and content of any ASB pronouncement on Public Benefit matters, we have taken the view that most of the proposals set out by the ASB are workable, and in choosing between approaches have mainly been concerned that the approach to developing and maintaining the standard should be practical, rigorous and transparent.

Furthermore, we also see a place for additional guidance in the SORP space. There are sufficient differences between the sectors that it would be helpful to have separate guidance which reflects sector specific considerations. This could also include material which arises from regulatory and other financial reporting requirements not directly derived from standards, and might also propose additional standardisation of presentation in the interests of comparability across some sub-sectors.

As discussed in our answer to Question 12, on balance we are inclined to support a 'lean' Public Benefit standard, mainly focussing on the areas where supplementary guidance is necessary, together with SORPs or similar guidance developed by stakeholder bodies. However, the answer to this question may also depend on whether the development is grounded in EU adopted IFRS, or the more streamlined material in the IFRS for SMEs. The IFRS for SMEs is well drafted and highly regarded, and excludes a body of material which, as discussed in our answer to question 1, is developed for a specific category of reporting entities with a specific concept of public accountability. However, the IFRS for SMEs is not designed for public benefit entities, and in addition to adding public benefit specific material and eliminating material which would never be relevant, it is likely that some of the IFRS material excluded on cost benefit grounds would need to be reinstated to adequately encompass the economic characteristics of some public benefit entities, and to meet their accountability responsibilities.

The public benefit sector needs and deserves to have high quality financial reporting that is appropriate to its circumstances, and the material in the SORPs needs to be developed with a similar degree of transparency and rigour to other standards material. This will be particularly important in cases where the reporting reflects an 'adaptation' of IASB guidance, rather than supplementary material which re-articulates the IASB pronouncements so that they can be applied to economic circumstances which are not covered by its standards and framework.

In providing any assurance on SORP documents, the ASB would be primarily considering consistency with the standards framework. In this regard we suggest that the Public Benefit standard should function both as a toolkit for the development of standards consistent SORPs, and a specification for the content and structure of the

standards related material in the SORP. In saying this we are not suggesting that a 'one size fits all' approach to SORPs is required – the current SORPs differ largely because of the specific needs in each sector, particularly the Charities SORP which is a comprehensive body of guidance applicable to a wide range of different sizes and types of charitable entities. We do however suggest that specification in the Public Benefit standard or other related ASB material should promote a greater consistency of presentation which would make it easier to map the SORP material against the standards framework.

If you have any questions on the material in this response, please contact Steven Cain (t: 020 7543 5794 e: [steven.cain@cipfa.org.uk](mailto:steven.cain@cipfa.org.uk)).

I hope these comments will assist the Board in its development of this significant and important revision of UK GAAP.

Yours sincerely

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ASB consultation paper  
"Policy Proposal: The Future Of UK GAAP"

RESPONSES TO SPECIFIC QUESTIONS

Question 1 – 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?

We are inclined to support the Board's proposed definition at 2.3 as a suitable basis for determining those business or profit seeking entities which are required to comply with the full suite of EU adopted IFRS. This broadly equates to the term as used by the IASB, and has the effect of applying IASB standards to the type of entity for which they were designed. We would note in passing that, many public benefit entities as defined in the paper, are subject to stringent reporting requirements under relevant UK law or regulation, and in this sense are also publicly accountable. We make this point purely for clarity. We do not suggest that the ASB should move to a wider definition. Nor do we suggest that the ASB should use different terminology to that used by the IASB which within its specific context is fit for purpose.

Questions 2 to 9 address the ASB proposals to apply EU adopted IFRS, IFRS for SMEs and the FRSSE to different types of reporting entity, principally private sector companies. Question 15 seeks preparer and user views on the effect of implementing the proposals based on existing IASB and ASB standards.

As explained in the covering letter, CIPFA has focused mainly on the public benefit entity proposals in Section 3, which include a proposal for an additional ASB standard and explore whether other guidance might be subject to ASB approval. No comments are made in response to questions 2 to 9 or question 15.

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 analysis, and in particular that further consideration of the position of SORPs for Public Benefit Entities is warranted. This is provided in Section 3 of the Consultation Paper and our main comments are addressed to that Section.

Question 11 – 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 entity issues?

We agree that the main approaches through which public benefit issues could usefully be addressed are covered by the four options set out at 3.12.

We support the Board’s proposal to develop a public benefit (not-for-profit) standard, although we believe that each of the other approaches could be made to work.

Based on comments from CIPFA stakeholders we suggest that the Board should adopt an approach which

- facilitates the development of additional guidance
- can be seen to be subject to transparent and rigorous process, promoting high quality reporting which, while different from that for business entities, differs only in ways which appropriately reflect the differences between the business and public benefit sectors

Question 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?

On balance, we support the second approach which concentrates on areas where the IASB material needs to be supplemented. While we believe that there is a need and a demand for comprehensive guidance, in our view this would be best achieved through a 'lean' PB standard, together with sector specific guidance which provided more detail and, might for example include financial reporting requirements imposed by regulators and other matters not covered by standards. Such a Public Benefit standard would cover areas which where the accounting requirements need to be interpreted or adapted to reflect sector differences. Although drafted in the UK context, we would also expect an ASB standard concentrating on more generic differences to be useful to accounts preparers and national standard setters in other jurisdictions, who will face a similar 'gap' in applicable material for public benefit entities.

Some CIPFA stakeholders expressed a preference for a more comprehensive Public Benefit standard, which would in their view be helpful to preparers, and reinforce the importance of this area of financial reporting.

However, on balance we consider that it would be more practical to adopt an approach focused on supplementary requirements having regard to

- the need to demonstrate that the ASB had applied rigorous and transparent process to modify or adapt the IASB material
- maintenance and amendment workloads required to update the Public Benefit standard to reflect and maintain consistency with other relevant IASB standards developments;
- the review processes which would be needed if sector specific SORP type guidance were to be approved by the ASB

Question 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?

We agree that the issues in the Table at 3.15 are distinctive for the sector, and might in principle be covered in a public benefit standard. However, for some of the issues we consider that it might be more helpful for the main content to be contained in sector specific guidance such as a SORP, rather than in the guidance itself.

The issues outlined in the table are fairly comprehensive and a suitable starting point, although it might be helpful if the list were clearer that the standard will cover various other matters including

- assets obtained in non-exchange transactions which are property, plant or equipment rather than current assets. For example, donated assets, assets obtained for nominal sums, property on peppercorn leases
- the implications for the going concern concept for bodies funded primarily through non-exchange revenue.

Question 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?

In CIPFA's view there are differences between the PBE sectors, which indicate that sector tailored SORP like guidance would be helpful. There is need for guidance on when to adopt variant treatments based on a different impact of public benefit sector differences. Including detailed material on all of these in a public benefit standard would make it very big, and would mean that practitioners would have to read more material which was not relevant to the transactions or circumstances of their sector. SORP like guidance could also incorporate non-mandatory guidance and/or regulatory reporting requirements.

We consider that a Statement issued by the ASB confirming any supplementary guidance/SORP is consistent with (IFRS based) UK GAAP including the public benefit entity standard would be very helpful and would increase confidence in financial reporting in these sectors. Our discussions with stakeholders indicate that there is strong support for an ASB SORP 'franking' process. All were keen that there was an independent oversight and approval process for sector guidance, and the ASB is seen as the natural candidate for providing such a process.

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

We are not sure whether the question on adoption dates is intended to encompass the public benefit area, but clearly, if the main body of UK GAAP is moving to IASB derived standards it would not be tenable for the sector to lag too far behind.

It remains to be seen whether the final form of Public Benefit entity reporting under revised UK GAAP will be hugely different from current practice, but inevitably there will be differences of detail on transition, and experience with other IFRS transition indicates that quite small differences can pose significant implementation challenges to preparers.

We are also conscious of the fact that bodies moving to the IFRS for SMEs or EU adopted IFRS will soon have a very clear notion of the standards they will be using, as these are already in place. In contrast, there is currently no Public Benefit standard, nor are there any SORPs developed in line with that standard. While we appreciate that the ASB Committee on Accounting for Public Benefit Entities (CAPE) has a well developed body of knowledge in this area, the challenges of developing the first iteration of the Public Benefit standard should not be underestimated. Also, there are limits to which the SORP making bodies might be expected to 'look ahead' in developing revised SORPs without a clear understanding of the end product they should aim to produce.

The proposed timetable may well be quite challenging for public benefit entities, and dependent on progress by the ASB and the SORP making bodies. Unless the Board is confident that very rapid progress can be made, it might be better to delay implementation until the sector has sufficient clarity on the direction of travel to allow collection of prior year comparative information and in year information for new disclosures which were not required under current SORPs.