

Peter Goodsall Esq
Accounting Standards Board
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1 February 2010

Dear Mr Goodsall,

Cancer Research UK response to the consultation on ‘The Future of UK GAAP’

Cancer Research UK is the world’s largest independent organisation dedicated to cancer research. In 2008/09, our research spend was approximately £355 million. We have around 50,000 volunteers, one million regular donors and directly engage with around 3 million people every year. We welcome the opportunity to respond to this consultation.

Please find in the attached appendix our responses to the questions asked by the invitation to comment. Please note that we do not consider questions 3 and 4 to be relevant to us, and so have not included them in our response.

In addition we make the following general comments:

- We very much appreciate the efforts that the Board has made to promote accounting for Public Benefit entities. We consider that including our sector directly within this consultation is evidence of that. We are also conscious that efforts have been made by the Board to ensure that public benefit accounting issues are not left off the international accounting agenda.
- We strongly support the concept of a public benefit accounting standard. We consider that this will both raise the profile and consistency of public benefit entity accounting. Hopefully, this would also allow the Board to take an even greater leadership role in encouraging international accounting setters to give greater attention to public benefit accounting.
- We consider that the Charity SORP Committee has made a huge contribution to the development of credible charity accounting and reporting in the last few years. The Charity Commission has played a key role with this. And we are in general support of its response to this consultation set out in its paper (Board Reporting Paper No: (9) OBM25).

This paper stresses the importance of narrative reporting for charities. We share this belief but we think that care needs to be given as how this is dealt with. Our preference is for narrative reporting to be part of a Reporting Standard rather than an Accounting Standard as such. It is our view that the more subjective nature of reporting would not sit easily as part of an accounting standard. For example, it could put charity auditors in a very difficult position in establishing the Standard had been properly complied with.

Cancer Research UK Submission to ASB Consultation on The Future of UK GAAP
1st February 2010

- 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 consider that we and other large charities will prefer the Board's proposal.

However, we consider the use of the phrase 'public accountability' to be unfortunate. In the normal sense of the meaning of 'public accountability' our sector is clearly publically accountable. This is particularly so for charities like our own which are hugely dependent on the generosity of the public. But even endowed charities benefit from generous tax reliefs available to charities and, as such, are publically accountable in the general sense.

Whilst the terminology may be unfortunate the outcome remains appropriate as we do not believe that a requirement to apply IFRS in full would generally be helpful to the understanding of charity accounts by the primary class of user of our accounts (funders and financial supporters as per the Interpretation of the Statement of Principles for Public Benefit Entities).

We are conscious that some charities, albeit a small number, will meet the 'public accountability' requirement to apply full IFRS. In our view further work is required to establish how widespread this will be and whether compliance in these circumstances is in the public interest. There may even be merit in a few charities having a dual reporting responsibility.

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

We do not consider that this question is directly relevant to us. However, we believe that it needs to be considered whether it is in the public interest for a few charities that meet the definition to be included in tier 1.

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

The question does not make clear whether it includes charitable companies or other public benefit entity equivalents.

We believe that the IFRS for SMEs has much to commend it. In particular, the substantially reduced disclosure requirements and the updating of the standard in a three year cycle are very helpful. However, this standard is a new one and is not yet well understood by the charity sector. We are aware that there are a number of significant differences between full IFRS and the requirements of the IFRS for SME's. But overall we consider that it is likely to be a sound foundation for Public Benefit Entity financial reporting.

- 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 reason for recommending these amendments.**



We see the logic in the Board's suggestion. But for Charities it would seem that adaption will be necessary if it is felt that there should be a 'one stop shop' for public Benefit entities.

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.

Cancer Research UK is one of the largest charities in the UK with a voluntary income of £433 million in the year to 31 March 2009. In the case of charities we do not consider that it would be helpful for a few charities to report in a much more complex way than others. It would, in our opinion, lead to significant cost with no tangible benefit to the primary class of users of our accounts. In fact, the opposite would likely to be the case as comparability in the charity sector would be lost.

Due to these factors we believe that it should be considered whether or not charities should have the option to apply full scale IFRS unless this was a strict requirement. This would continue the current UK prohibition and would send a strong signal about the need for proportionate and fit for purpose accounting as set out in the discussion paper.

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

This does not impact on Cancer Research UK. As yet we are not well acquainted with the IFRS for SME's but our initial impression is that this reporting framework, being so much less onerous than full IFRS, may question whether an interim solution such as this is appropriate or necessary. This seems to be borne out by comments in paragraphs 2.27 and 2.28. This will particularly be the case should the planned timetable for convergence prove to be optimistic. Please also see our response to question 16. We also consider that the proposals to exempt micro entities also supports this view

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

Please see our comments to question 8 above.

We see that this must be at least an ultimate goal.

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

Yes. We believe that the Board has taken a pragmatic approach to what will happen to SORPs. Supplemental guidance is only required to the extent that it is strictly necessary. SORPs do have their drawbacks. We are conscious that in the charity sector the Charity SORP is treated as having equal credibility to Accounting Standards when this is not intended to be the case as is illustrated by the statement of negative assurance provided by the Board for SORPs. There can also be a lack of comparability between SORPs with the same accounting transaction being treated differently depending on which SORP is being reported under. This does not aid consistency or the credibility of financial reporting.

Neither do we think that it is ideal that a regulator, such as the Charity Commission or OSCR, should also have a key role in shaping a significant degree of accounting practice in the regulated sector.

If SORPs are to remain in some form then we suggest that they be eventually renamed more appropriately to reflect their part in the new accounting framework. It will be important to send out the correct signal that the accounting world has changed.

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?

Yes - we are in favour of the principle of a separate accounting standard for public benefit entities. However, the 'devil is likely to lie in the detail'. In particular, we hope that any such standard will not lack ambition. Rather than attempt to solely fill in the gaps where IFRS does not address public benefit entity issues we would like the standard to deal with issues where the commercial answer may not be appropriate for our sector. The Public Benefit entity sector should not be made to fit in with commercial practice where this is inappropriate. The accounting treatment of soft loans and business combinations, for example, may be cases in point.

We are also drawn to the idea of such a standard consisting of a number of separate sections to cover each accounting area - along the lines of the current FRS5. This should enable the public benefit entity standard to be updated in the most efficient way.

12. If you 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?

We can appreciate the merits of having a 'one stop shop'. In our view this has contributed significantly to the success of the Charity SORP. For many smaller charities this is indispensable and we would want to see this continue. However, for larger charities, which account for by far the greatest percentage income of the sector, the level of the IFRS for SME's is not dissimilar to the Charity SORP. This therefore makes us consider that it may not be necessary, or appropriate, for larger charities to have a 'one stop shop'. In fact, if we want Public Benefit entity accounting to be part of the mainstream then this might be unhelpful.

To maintain a document that is appropriate for use by smaller charities would seem to resonate with the research work carried out by the Charity Commission which suggested that the Charity SORP should be more focused on the needs of the smaller charity. Effectively there might be merit in there being what might be termed 'a charity FRSSE equivalent' as a successor to the current charity SORP.

13. Do you agree the issues listed in the table in paragraph 3.15 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?

Yes – we consider that the issues listed in paragraph 3.15 are distinctive for the public benefit sector and should be covered in the Public Benefit Accounting Standard.

We are particularly pleased to see that this list contains the accounting treatment for multi-year grant commitments. Different public benefit entities can account for the same transaction in different ways. In the case of grant makers this can lead to differences of many millions of pounds. For example, at Cancer Research UK we are aware that some grant-making bodies account for grants on annual basis whilst we are required to accrue for the ongoing commitment.”

We consider that the work on revenue for non exchange transactions should include gifts in kind and donated services provided on a voluntary basis.



We also think that the standard should not only cover 'control' issues but that it should consider the position of associates and joint ventures and what 'significant influence' means in a Public Benefit context.

In considering Fund Accounting we encourage the Board to consider how restricted funds should be dealt with in cash flow statements. This is an area which we consider has not been properly considered in the past.

The status of FRS30 on accounting for heritage assets also needs to be considered. It is not clear from the discussion paper how this will be dealt with although it is stated in paragraph 1.1 that 'all existing literature would be superseded'.

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?

To ensure consistency and to give confidence in the supplemental guidance we consider that the involvement of the Board remains essential.

What amounts to 'supplemental guidance' will need to be carefully defined.

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?

Our initial impression is that, should our accounting be based on the IFRS for SMEs, then the ongoing work involved in preparing our accounts should not be significantly different from what is required now. There will, of course, be a one off cost in terms of first time adoption. This question will be possible to answer more exactly when the framework under which charities are to report is more clearly established.

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

We can understand why, with the previous delays there have been in the convergence timetable, the Board is keen to be seen as not dragging its feet.

However, it must be more important to implement these changes in a manner that will enable the necessary changes to be introduced effectively and without undue haste. Whilst we believe that the case for convergence is proven we do not consider that there is any pressing need for change to be rapid at least for public benefit entities. We are concerned that meeting the timetable as set out in the discussion paper would fall into this category. We are encouraged that indications are that the Board will listen sympathetically to concerns about the currently stated time frames.

We are also conscious that the Board is likely to be under pressure from some quarters to deliver a speedy convergence process. Convergence for public benefit entities is likely to be a much more complicated process than for commercial entities due to the commercial prerogative of international accounting standards. We urge the Board to ensure that convergence is not achieved by means of short changing the accounting framework for public benefit entities.

- Whilst it is beyond the Board's control we consider that it is regrettable Public Sector accounting in the UK will not be more closely aligned with the new UK GAAP.

We understand that change is not always easy and that convergence with international accounting standards will not be straightforward. However, we believe that this also creates a significant, and possibly unique, opportunity to raise the bar for Public Benefit Accounting. We believe that this consultation document is a step along the way to achieving that goal.

Yours sincerely

Cancer Research UK

Enclosures: