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Dear Peter

POLICY PROPOSAL: THE FUTURE OF UK GAAP

Chartered Accountants Ireland welcomes the opportunity to comment on the Policy Proposal: The Future of UK GAAP ("the Proposal"), published by the Accounting Standards Board ("the Board"). The Proposal has been considered on behalf of Chartered Accountants Ireland by its Accounting Committee (AC).

AC is supportive of the Board's Proposal and agrees that it would lead to an overall improvement of the standard of financial reporting in the UK and Ireland, and help the Board to achieve its stated objective of developing a high-quality, fit-for-purpose financial reporting framework. AC notes the problems associated with maintaining current *UK and Irish GAAP*, given the suite of standards, some of which are fully converged with *EU adopted IFRS*, some partially converged, and others which are not converged. Current *UK and Irish GAAP*, for instance, does not address the accounting for, and reporting of, financial instruments for the vast majority of entities in both jurisdictions, which do not come within the scope of FRS 26 / FRS 29.

AC considers it of vital importance to the successful implementation of the Board's Proposal that the definition of 'Public Accountability' be as clear and unambiguous as possible. AC is concerned that, as currently drafted, the definition could result in significant difficulties and inconsistencies in practice in identifying which entities fall into Tiers 1 and 2. In the response to question 1, AC identifies and discusses a number of examples of entities where potential ambiguities exist, whilst emphasising that the list does not purport to be complete and that other interested parties are likely to identify further examples. AC recommends that the Board give due consideration to providing implementation guidance to clarify the Board's intentions with regard to the meaning of the key aspects of the definition, namely:

- 'traded on a public market';
- 'deposit-taking entity';
- 'holds assets in a fiduciary capacity';
- 'broad group of outsiders'; and
- 'primary businesses'.

AC's responses to the individual questions posed in the consultation document are contained in the appendix to this letter. Given the importance of the Board's proposals and the wide spectrum of entities, industry sectors and other sectors of society that are impacted by the proposals, AC anticipates that the Board may receive a number of responses from interested parties in Ireland. As such, the views expressed in this letter and in the attached appendix are those of the Accounting Committee of Chartered Accountants Ireland alone and do not represent the wider views of all interested parties in Ireland.

Please note that AC has not been in a position to finalise its comments on Questions 11 to 14 relating to public benefit entities, and proposes to provide comments thereon to you in February.

AC looks forward to participating in further consultation opportunities with the Board during 2010, both before and after the publication of the exposure draft, and is committed to assisting the Board in any way it can to ensure that the implementation of the final proposals is as successful as possible. Should you wish to contact us about any of the issues we have raised in this submission, please feel free to do so.

Yours sincerely

Mark Kenny

Secretary to the Accounting Committee

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?

For the reasons set out in the Proposal, AC prefers the Board's proposed definition of 'Public Accountability'.

However, AC has significant concerns about the application of the Board's definition in practice and considers that the proposed definition, of itself, is not sufficiently clear and understandable to enable entities to determine whether or not they are publicly accountable.

Implementation guidance

AC considers that the definition of 'Public Accountability' is the lynchpin of the Board's proposals and thus it is of fundamental importance that the correct application of this definition in practice be facilitated. AC suggests that implementation guidance should be drafted by the Board which would provide an explanation of the Board's intended interpretation of each key element of the definition of 'Public Accountability'; namely 'traded on a public market', 'deposit-taking entity', 'holds assets in a fiduciary capacity', 'broad group of outsiders' and 'primary businesses'. AC has identified below some examples of entities where it considers there is currently potential for ambiguity in the proposed definition of 'Public Accountability'. If the Board were to expand more fully on the intended meaning of the various phrases as outlined above, some of these ambiguities may disappear.

The Board may have a concern that providing interpretative guidance in relation to phrases used in the IASB document would be inappropriate, but AC considers that any guidance provided by the Board would apply only in the context of the legal and regulatory environment that operates in Ireland and the UK and consequently could be presented as being jurisdiction specific and effectively application guidance for *UK and Irish GAAP*. The benefit of taking this approach would be to increase significantly the consistent application of the Tiered approach to *UK and Irish GAAP*. An issue does arise in relation to captive insurance companies, which is discussed below.

Having said that the approach should be driven by the Board's definition of 'Public Accountability' rather than the legal definition, AC considers that the Board should not completely ignore the legal definitions. There are existing and well understood definitions of 'credit institutions' and 'insurance undertakings'. AC recommends that the Board consider deeming, for the avoidance of doubt, all credit institutions and insurance undertakings as defined by legislation to be 'publicly accountable'.

Finally, AC considers that the Board's definition should acknowledge that the Governments in the relevant jurisdictions may wish to deem, or legally stipulate, that certain entities are publicly accountable for the purpose of financial reporting. Consequently, AC considers that the definition of 'Public Accountability' in *UK and Irish GAAP* should have a third bullet

acknowledging that Governments / Regulators in the jurisdictions may designate entities as being publicly accountable.

Examples of potential ambiguities

It is important to note that these examples are not intended to be exhaustive and AC considers that other commentators are likely to identify further examples.

- *Reinsurance companies*

By definition, reinsurance companies only transact with insurance companies. Such companies do not interact directly with the public although they are underwriting insurance policies that have been issued to the public. Does the nature of the business activity (i.e. writing insurance) satisfy the definition of 'Public Accountability' or could it be argued that because a reinsurance company is limited to only transacting with other insurance companies then such companies are not dealing with a 'broad group of outsiders' and, therefore, not publicly accountable. AC considers that they should be publicly accountable and so would suggest that deeming all insurance undertakings under the law to be publicly accountable would remove any ambiguity that may arise.

- *Captive insurance companies*

By definition, a captive insurance company insures the risk of its parent undertaking or of fellow subsidiaries. As with reinsurance companies, the question arises whether the nature of this business activity satisfies the definition of 'Public Accountability' or whether the fact that a captive insurance company only transacts with its parent (or fellow subsidiaries) mean that such companies are not dealing with a 'broad group of outsiders' and, therefore, not publicly accountable. This needs to be assessed from the point of view of the captive insurance company itself and from the point of view of the consolidated group financial statements. To take the group financial statements first, there is no external insurance policy being written and, therefore, absent another reason to be publicly accountable, it would seem harsh to classify the group as a publicly accountable entity. In relation to the captive company itself, if the suggestion above to deem all entities that meet the legal definition to be publicly accountable is adopted, then unless an exemption is made for entities that transact only with group companies, it would qualify as publicly accountable. AC would support making such an exemption.

- *Investment / mutual funds*

AC notes the board's assertion that "mutual funds" are typically publicly accountable. It is unclear whether the Board formed this view because many are listed on regulated or unregulated markets or because they hold assets in a fiduciary capacity for a broad group of outsiders as a primary business – or perhaps for both reasons.

AC considers that this matter is rather more complicated and recommends that the Board consider carefully the views of investment fund representative bodies and other commentators.

For example, where the fund is a closed-end fund, it would appear to meet the definition of 'traded on a public market' since it is capable of being traded between interested buyers and sellers and there is generally some local market (or broker) that will facilitate trading. However, where open-ended funds are listed on a market (even a regulated market), holders of units/shares in a fund can redeem their holding only by putting them back to the entity; it is generally not possible to 'trade' with any party other than the fund itself. There are also occasions where the fund's listing / publicly tradable status is only a matter of convenience or marketing driven.

If the reason that mutual funds meet the definition is because they hold assets in a fiduciary capacity for a broad group of outsiders as a primary business, then certainly quite a number of funds will meet these criteria. However, there are occasions, where the fund is a subsidiary and actually holds assets for only one investor – would this fall outside the definition as there is not a broad group of outsiders involved? Alternatively, is that fact that it could potentially hold funds for a broad group of outsiders sufficient to bring it within the definition? If the status of a fund is to be determined by the number of investors for which it holds assets on a fiduciary basis, there will need to be guidance on what constitutes a 'broad group of outsiders', particularly where its units are held narrowly (i.e. wholesale funds). Perhaps, as with captive insurance companies, there should be an exemption where the investment fund is a wholly owned subsidiary.

- *Entities that accept deposits in advance of a purchase or provision of a service*

There are many types of entity that take deposits from customers or clients in advance of the related funds being used to make a particular purchase, either directly from the deposit holder or via the deposit holder. Examples include estate agents/auctioneers, travel agents and aircraft manufacturers. In some cases, the depositor may actually earn interest income while the third party holds the deposit. AC notes that some may consider the taking of deposits by such entities as being 'incidental' to their primary business, however others may consider that taking the deposits is an integral part of their primary business. AC is concerned that the definition of publicly accountable appears to include all 'deposit takers' without restriction. AC also notes that in inserting the phrase 'deposit-taking entity' into the definition of publicly accountable, the Board does not appear to have made a direct link to the phrase 'as one of its primary businesses', which might be considered to further widen the scope of entities that are deemed publicly accountable. Consequently, AC recommends that the use of the term 'deposit-taking entity' without elaboration be reconsidered by the Board, as otherwise it may cause unintended consequences and/or uncertainty in practice. AC suggests that the Board's intention may be met by cross referencing to the legal definition of a credit institution.

- *Solicitors*

As part of their day-to-day activities, solicitors (and to a lesser extent other professional services firms) hold their clients' assets on account for subsequent transmission to either third parties on behalf of their clients or back to clients from third parties. Clients generally earn income while their money is held in these deposits. The holding of such assets is a requirement and consequence of their primary business. Does such an activity satisfy the definition of 'Public Accountability'?

- *Co-operative societies*

AC notes that the Board's assertion, in paragraph 4.4 of the Proposal, that most co-operative societies will not fall within the definition of 'Public Accountability' as they do not meet the criteria in paragraph 2.3 of the Proposal.

In Ireland, co-operative societies are governed under the Industrial and Provident Societies Acts. They act as a mutual society where the members combine to maximise the returns that can be generated from their activities or primary businesses. They are particularly common in the agricultural sector and can be very significant entities with a wide business mandate.

AC understands that certain co-operative societies could perhaps fall within the phrase 'traded in a public market' for the following reasons:

- Shares in co-operative entities are usually held by a large number of individuals and the shares can comprise different classes some of which may be 'tradable' with other members or puttable back to the co-operative itself at a market derived value.
- Where the co-operative acts as a clearing house for such trades, the question arises as to whether this constitutes a 'local market' – which could be considered to constitute a public market.

As stated above, many of the larger co-operatives are associated with the agricultural sector in Ireland and many of them would operate the marts where livestock trading takes place. As part of this activity, the co-operatives often act as 'deposit-taking entities'. AC would also point out the 'mutual' nature of the operations and question whether the assets of the co-operative are held in a fiduciary capacity for the benefit of members.

In light of the Board's view that "most co-operatives will not fall within the definition of public accountability" and given the points raised above, AC requests that the Board clarify, in the exposure draft, how the definition of 'Public Accountability' applies to co-operative societies and how the distinction should be made between the majority of co-operatives, as envisaged by the Board, which will not meet the criteria for 'Public Accountability' and the minority which will.

- *Custodian entities*

AC notes that certain entities 'hold' assets in a fiduciary capacity for a broad range of outsiders, but that holding is legal and non-beneficial. Consequently, AC suggests that the Board clarify the term 'holds', as AC assumes such entities are not intended to be Tier 1.

- *Employee Share Ownership Trusts (ESOTs)*

Where an ESOT is required to prepare accounts that give a true and fair view, should it be regarded as publicly accountable e.g. will that determination depend on an assessment of whether those for whom the shares are held in trust are 'a broad group of outsiders'? It will also be necessary to assess whether the beneficiaries have the ability to 'trade' their shares by

selling them back to the ESOT at market price, with the ESOT then either disposing of them or trading them on to other employees.

- *State-owned profit seeking entities*

There are a number of state-owned profit seeking entities in the Republic of Ireland, some of which are large and provide substantial employment. These companies are obliged to prepare financial statements that show a true and fair view. They generally operate in the areas of infrastructure and utilities or provide a public service such as broadcasting. The majority of these companies continue to use *UK and Irish GAAP* as their accounting framework. The capital stock of these entities is held wholly or mainly by the Irish Government on behalf of the public. Given the fact that the entities are under public ownership and supply a public service, AC would consider that most if not all of these entities should have 'Public Accountability'. However, based on the definition suggested by the Board, it is unlikely that they would at present fall within the definition. It is for this reason that AC suggests that the definition of 'Public Accountability' be amended to acknowledge the ability of a relevant authority to deem such entities to be publicly accountable and, thereby, to determine whether they should be required to use *EU adopted IFRS* or *IFRS for SMEs*.

Moving between tiers on a change of primary business

AC notes that the consultation document does not address the issue of entities moving between tiers as a result of significant changes in their primary business(es). AC considers that it would not be desirable for entities to move between Tier 1 and Tier 2 on a regular basis and suggests that it might be appropriate to adopt a similar approach to that taken by company law with regard to distinguishing entities by size. Under such an approach, entities which were previously publicly accountable would only be eligible to adopt the *IFRS for SMEs* if their primary business activities qualified as non-publicly accountable for two consecutive years.

Similar considerations would apply where entities become publicly accountable in a particular year.

Entities which voluntarily applied EU adopted IFRS

Under both UK and Irish company law, entities which availed of the option to apply *EU adopted IFRS* in preparing their annual financial statements are prohibited from opting out of *EU adopted IFRS*, except in limited 'relevant circumstances'. The question arises as to whether the proposed changes to *UK and Irish GAAP*, including the introduction of the *IFRS for SMEs*, represent such a relevant circumstance. AC suggests that the Board discuss this issue with the relevant authorities in both jurisdictions, in advance of issuing the exposure draft, to clarify whether a non-publicly accountable entity, which previously applied *EU adopted IFRS* voluntarily, would be permitted to change to the *IFRS for SMEs*.

Question 2

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

AC agrees with the general principle that entities that are publicly accountable should be included in Tier 1 and, therefore, be required to prepare financial statements in accordance with *EU adopted IFRS*.

However, AC does have some sympathy for very small entities that meet the definition of 'Public Accountability' merely because of the nature of their activity. Consequently, AC would suggest that there may need to be limited exceptions to this general principle.

Small credit unions

AC notes that many credit unions are small (based on employee numbers and total revenue) and do not engage in complex transactions such as business combinations, share-based payments, derivatives, subsidiary undertakings or have complex financing structures. Accordingly, AC considers the question must be asked as to whether it is appropriate that such small credit unions should have to use *EU adopted IFRS*, including the disclosure requirements of *EU adopted IFRS*. Preparation of financial statements in accordance with the *IFRS for SMEs* would mean a reduced level of disclosure compared to *EU adopted IFRS*; particularly in relation to financial instruments and financial risk management policies and procedures.

AC notes that the following characteristics may be regarded as distinguishing credit unions from banks and other financial institutions:

- the 'not for profit' legal nature;
- the restriction on membership of credit unions to individuals identified by a unique 'common bond', e.g. employer, occupation, location;
- the inability of a credit union to take deposits from individuals that are not part that particular credit union's 'common bond';
- the fact that credit unions are limited to only lending to their members;
- the democratic control of credit unions (all members enjoy equal rights to vote regardless of the extent of their deposits);
- the high level of volunteer participation in the management of credit unions; and
- the relatively unsophisticated level of knowledge of many of their member/users in relation to *EU adopted IFRS*.

AC understands that, as all credit unions are 'deposit-taking entities' and would thus fall into Tier 1, the Board's Proposal would require them to use *EU adopted IFRS* where their accounts are required by the law to give a true and fair. Where the credit unions are sizeable entities and the 'common bond' is such that there are a significant number of members and material assets under management, AC would fully support the requirement to use *EU adopted IFRS*.

Having considered various aspects of credit union activities, such as restrictions in the 'common bond', the level of complexity of transactions undertaken, and the fact that lending is only undertaken with members, AC found it difficult to reach a consensus on prescribing criteria such that credit unions could be appropriately stratified into those which should be required to apply *EU adopted IFRS* and those which should not be so required. The majority AC view, however, questions whether mandating the preparation of financial statements in accordance with *EU adopted IFRS* would be appropriate for all credit unions. Those AC members supporting this view suggest that consideration should be given as to whether an exemption based on size would be appropriate for credit unions.

Accordingly, those AC members supporting the majority view consider that it would be appropriate for the relevant Regulators in each jurisdiction e.g. the Irish Financial Regulator and the UK equivalent, to consider whether financial statements of such small credit unions need to give a 'true and fair view' or whether they should just be prepared in accordance with the *IFRS for SMEs*. This issue arose in relation to half-yearly financial reports of listed entities under the Transparency Directive and the solution was to require half-yearly reports to comply with IAS 34 rather than give a 'true and fair view'. AC members supporting the majority view, therefore, encourage the Board to engage with the credit union regulators and representatives to determine whether inclusion of all credit unions, irrespective of size, within the Board's definition of 'Public Accountability' is the only appropriate solution and future reporting framework for credit unions.

Finally, those AC members supporting the majority view note that, depending on whether the Board reconsiders the classification of co-operatives as perhaps being publicly accountable, it may also be necessary to consider some form of size exemption for such entities as well.

The minority AC view is that such an approach would dilute the effect of the publicly accountable premise and those supporting this view also believe that *EU adopted IFRS* is appropriate for credit unions, in particular, given the nature of their activities, regardless of size. They argue that, in the absence of complex activities and/or transactions, the application of *EU adopted IFRS* would not be overly burdensome, given that they are currently required to prepare annual financial statements which give a true and fair view under current *UK and Irish GAAP*.

Parents/groups with publicly accountable subsidiaries

AC considers that clarification is required in relation to whether the following entities should be regarded as publicly accountable:

- The group financial statements of a parent, where there is a publicly accountable subsidiary, but where the parent entity is not publicly accountable.

- The entity financial statements of a parent entity that has a publicly accountable subsidiary, but is not publicly accountable itself.
- The entity financial statements of a parent entity that has a publicly accountable subsidiary and is not publicly accountable itself, but has given a guarantee or similar undertaking over some or all of the liabilities of its subsidiary.

AC considers that if a group has a publicly accountable subsidiary and the relevant 'public' (i.e. holders of listed debt or deposit makers with a banking subsidiary, etc) have access through a guarantee or similar undertaking to the assets of the wider group, the consolidated financial statements should also be considered to relate to a publicly accountable entity and be required to fall into Tier 1 and not be permitted to use *IFRS for SMEs*. AC considers that this would also apply to the entity accounts of a parent that had issued such a guarantee over a publicly accountable subsidiary.

Pension plans

AC considers that it would be helpful if the Board clarified where it sees pension plans fitting into its proposals.

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?

AC agrees with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply *EU adopted IFRS*.

As stated above, AC also requests that the Board clarify the reporting requirements for the consolidated financial statements of a parent that, itself, is not publicly accountable, but which has invested in a subsidiary that is publicly accountable.

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.

AC believes that, generally, wholly-owned subsidiaries that are publicly accountable should not be allowed reduced disclosures.

Non-publicly accountable subsidiaries of entities using *EU adopted IFRS*

AC also considered whether the Board should allow a non-publicly accountable subsidiary of a parent that uses *EU adopted IFRS* to adopt the full IFRS-based recognition and measurement accounting policies of its parent, while availing of the lesser disclosure requirements of *IFRS*

for SMEs or have a separate regime which gave exemptions to such entities from certain disclosures in *EU adopted IFRS*.

AC was evenly divided between those that agree with the Board's reasons that such a separate reporting regime should not be made available and those that consider it should.

View 1

Those that believe there should be reduced disclosure for such entities, either by having such a separate regime or cross referring to the *IFRS for SMEs*, disclosure advance the following arguments:

- The development of *IFRS for SMEs* went through years of consideration by the IASB and is now available as a stable platform accounting framework for a number of years for entities that are not publicly accountable.
- Accordingly, the level of disclosure required by the *IFRS for SMEs* is regarded as adequate for such entities, including non-publicly accountable subsidiaries of publicly accountable parents that use *EU adopted IFRS*.
- Given the progress being made by IASB in a number of areas, notably leasing, provisions/liabilities, financial statement presentation, pensions, there must be a strong likelihood that *EU adopted IFRS* will soon diverge further from *IFRS for SMEs*. Consequently, non-publicly accountable subsidiaries of parents that use *EU adopted IFRS*, such as EU listed parents, will have to prepare their numbers for consolidation on the basis of extant *EU adopted IFRS*, while at the same time being eligible to use the *IFRS for SMEs* for their general purpose financial statements. Given that the *IFRS for SMEs* framework is deemed suitable for such subsidiaries, it can hardly be correct for them to be denied the right to apply the better/more developed accounting policies of their parent, reflecting extant *EU adopted IFRS*, for the purposes of recognition, measurement and presentation in their general purpose financial statements. Such application would lead to consistency of accounting policies in the financial statements of the parent, its group and the companies under its control, while affording non-publicly accountable subsidiaries a measure of relief from the disclosure requirements of *EU adopted IFRS*.

Accordingly, the Board should reconsider the matter, as the proposed position can hardly be said to give rise to 'better' accounting by the subsidiaries, or to ease the burden of needing to keep two sets of books in every subsidiary.

View 2

The alternative view held by an equal number of members of the committee is that *EU adopted IFRS* is a complete framework and that the level of disclosure mandated for entities using that framework is appropriate. The same is true of the *IFRS for SMEs* framework. However, if entities choose the measurement and recognition policies from *EU adopted IFRS* and only give the disclosures from *IFRS for SMEs*, this would not represent the application of a complete

framework and there is a risk that necessary disclosures would not be made. This is of particular concern given the significant changes that are currently being made to *EU adopted IFRS* and the fact that *IFRS for SMEs* will lag behind the developments in *EU adopted IFRS* for a considerable time and the disclosures currently required by *IFRS for SMEs* may not be adequate for revised *EU adopted IFRS*.

This view also considered whether the Board should identify specific disclosures in *EU adopted IFRS* that are not necessary for non-publicly accountable subsidiaries. On balance, those holding this alternative view do not consider the complexity of adding an additional Tier (*EU adopted IFRS* with reduced disclosures), and the work involved in maintaining this Tier, to be cost beneficial.

Question 5

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

AC agrees that the *IFRS for SMEs* should be used as the basis for future financial reporting by 'Tier 2' entities.

AC notes that paragraph 3.2 of the *IFRS for SMEs* states that "[t]he application of the *IFRS for SMEs*, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs." This assertion, together with the commitment to, and promulgation of, the standard by the International Accounting Standards Board, supports the use by the Board of the *IFRS for SMEs* for 'Tier 2' entities.

AC considers it would be useful if the accounts of entities using *IFRS for SMEs* were required to explain the reason for their eligibility to do so, particularly where this involved the exercise of judgement by the directors.

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 reason for recommending these amendments.

AC believes that adoption of the *IFRS for SMEs* without amendment would be the most practical and least complicated solution. Therefore, AC believes that the *IFRS for SMEs* should be adopted wholesale and only amended where this is necessary to ensure compliance with Company law which is required to be adopted in the EU.

AC believes that limiting the UK and Irish 'inking' of the *IFRS for SMEs* will add to the global credibility of UK and Irish financial reporting as robust and effective.

Having said that, AC is also conscious that companies incorporated in Ireland and the UK should not be significantly disadvantaged in comparison to their current position or to their European counterparts as a result of the adoption of the *IFRS for SMEs* as *UK and Irish GAAP*. There are two areas where AC has identified a conflict with the current law which could be overly onerous were no change made to the *IFRS for SMEs*.

Exemption from preparing consolidated financial statements for intermediate parents

AC has identified the exemption from preparation of consolidated financial statements as an example of a situation where AC would encourage the Board to make an amendment to the *IFRS for SMEs* prior to application of this standard within any UK and Irish financial reporting framework.

The *IFRS for SMEs* provides an exemption from preparing consolidated financial statements, where the company is included in the consolidated financial statements of a larger group, provided those consolidated financial statements are prepared in accordance with *IFRS* or the *IFRS for SMEs*. This exemption is more restrictive than the current FRS 2 and company law exemptions from consolidation, and could be seen as a significant disadvantage when compared to current *UK and Irish GAAP* or to similar companies in other European jurisdictions.

Exemption from presenting entity only profit and loss account in group financial statements

The *IFRS for SMEs* does not provide an exemption from presenting the profit and loss account, where the parent entity accounts and the group accounts are presented together, but that exemption is available under Company law. AC suggests that the Board should permit this exemption to continue under the new *UK and Irish GAAP*.

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.

AC agrees with the Board's proposal that large non-publicly accountable entities should be permitted to adopt the *IFRS for SMEs*. AC recognises the IASB's assertion that for non-publicly accountable entities "[t]he application of the *IFRS for SMEs*, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of SMEs." As noted above in the response to Question 1, AC suggests that the definition of publicly accountable entities should include those that are designated as such by the relevant authorities in each jurisdiction.

AC considers that once the definition of 'public accountability' is clarified and enhanced so as to be readily applicable by all entities, that category of entity will include those entities that should apply *EU adopted IFRS* (possibly with some limited exceptions).

Question 8

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

AC agrees with the Board that the *FRSSE* should remain in force for a period of years. AC assumes that the Board will monitor the development of the EU proposals on micro entities, as their outcome may affect the use of the *FRSSE*.

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*?

AC considers that it would be preferable if the *FRSSE* was amended, in due course, to be more closely aligned with *IFRS for SMEs*, but not simply replaced by *IFRS for SMEs*, as the *IFRS for SMEs* framework may be too onerous for entities that are larger than micro entities but qualify as small under company law. Of particular concern, in this regard, is the exemption from consolidation on the basis of size.

Question 10

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

AC agrees with the Board's current view that, as a general principle, the *SORPs* should only remain for profit seeking entities where there is clear and demonstrable need arising from sector specific issues not covered by guidance in accounting standards.

AC also agrees that specific industry sector bodies and organisations should continue to play an active role in the development of industry-specific guidance and the development of best practice reporting for their sectors.

AC considers it would be highly desirable if the Board were to continue to be able to provide some form of endorsement / negative assurance of *SORPs* and the industry specific application guidance.



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?

O/S

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?

O/S.

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?

O/S.

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?

O/S.

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?

N/A.



Question 16

What are your views on the proposed adoption dates?

The majority of AC members supports the Board's aim that Tier 1 entities should adopt *EU adopted IFRS* for years commencing 1 January 2012.

In relation to the adoption of *IFRS for SMEs*, those members supporting the majority view consider there would be merit in staggering the mandatory effective date, perhaps by reference to size, i.e. that larger entities in Tier 2 would have to adopt with effect from 1.1.2012, perhaps the next biggest companies from 1.1.2013 and smaller entities in Tier 2 from say 1.1.2014. In all cases, entities would be entitled to adopt early but it would not be mandatory.

This approach would ensure that the entities most capable of doing so would bear the cost of the development of experience in the application of the *IFRS for SMEs* by UK and Irish entities among users, preparers, auditors, accounting firms, representative bodies, training organisations and other interested parties. This should assist the remaining entities in their transition to *IFRS for SMEs*, and should lead to an expedited conversion process for the smaller entities.

The minority AC view is that implementation of the proposals should not be staggered because of the potential difficulties in determining which entities belong to each phase and the problems that may emanate from that. Depending on when the Board finalises its proposals, the timeline of 2012 may be considered ambitious and the Board should consider deferring mandatory implementation until 2013.

AC unanimously agreed that early adoption of *IFRS for SMEs* should be facilitated as soon as possible, including finalising the review of *IFRS for SMEs* to assess its consistency with the EU Directives.