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For the attention of Peter Godsall
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Dear Sirs

Policy proposal: The Future of UK GAAP

KPMG in Ireland welcomes the opportunity to respond to the policy proposal: The Future of UK GAAP published by the Accounting Standards Board.

We support the proposal and the intention to ensure the convergence of Irish and UK GAAP with IFRS by requiring publicly accountable entities to adopt IFRS and the adoption of IFRS for SMEs by non-publicly accountable entities.

We set out below our responses to the specific questions raised:

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 agree with the Board's proposal as we do not believe that differentiation on the grounds of size should govern financial reporting. However, we believe that significant guidance is required concerning the application of the definition and, in particular, we believe that detailed guidance is required in respect of the following phrases:

- traded on a public market;
- deposit taking;
- the holding of assets in a fiduciary capacity;

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- a broad group of outsiders;
- an entity's primary business.

If such guidance is not prepared, we believe that there will be considerable scope for differing approaches being taken for similar entities, because of the significant judgements involved. In this context, we set out, in an appendix, some potential interpretation issues, by way of example.

We also believe that given the large number of commercial state-owned bodies in Ireland, Governments should have the ability to designate certain entities as being publicly accountable for financial reporting purposes.

In addition, we feel that detailed guidance is required in relation to transition arrangements not only from Irish and UK GAAP to IFRS or IFRS for SMEs but also in relation to potential transfers (in each direction) between categories by entities arising because of changes in circumstances. Furthermore, we believe that criteria should be identified in relation to entities transferring between categories, perhaps similar to those in place for the current categories of large, medium and small companies – e.g. a number of years history of being in a certain circumstance before transferring between categories.

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

We agree that all entities that are publicly accountable should be included in Tier 1.

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 with the proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS.

However, we believe that some further analysis should be carried out in relation to the implications for the consolidated financial statements, where a publicly accountable subsidiary is involved, but where the parent entity is not itself publicly accountable and, further, the implications for the entity financial statements of a parent in such circumstances. Consideration should also encompass the position for a parent company's financial statements, where it has, for example, provided a guarantee in respect of a publicly accountable subsidiary or in relation to a publicly traded instrument.

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.

We do not consider that wholly owned subsidiaries that are publicly accountable should be allowed reduced disclosures.

Question 5: Do you agree that the IFRS for SMEs should be used by 'Tier 2' entities?

We concur with the view that IFRS for SMEs should be used by Tier 2 entities.

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.

In general, we believe that IFRS for SMEs should be adopted without amendment, save for those amendments which are required to ensure consistency with company law.

In particular, IFRS for SMEs exempts companies from having to prepare consolidated financial statements only where the financial statements are included in the consolidated financial statements of a larger company which are prepared in accordance with IFRS or IFRS for SMEs. This exemption is more restrictive than obtains at present.

In addition, the IFRS for SMEs requires the presentation of a parent company profit and loss account, where the parent and group financial statements are presented together. Again, this is more restrictive than obtains at present, where such a profit and loss account does not require to be presented.

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 Board's proposal that large non-publicly accountable entities should be permitted to adopt IFRS for SMEs. We do not believe that a criteria for the adoption of IFRS for SMEs should be based upon size.

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

We concur with the view that the FRSSE should remain in force (however, see our response to question 9 below).

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?

We agree that the FRSSE could be replaced by IFRS for SMEs after an appropriate transition period, however, we note that the framework may be very onerous for entities that are defined as “small” in Irish company law, which means, inter alia, that they currently have an exemption from consolidation requirements. Consequently, we would support the inclusion of such an exemption in the FRSSE replacement.

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

We agree with the view that SORPs should only remain for profit seeking entities where there is a clear and demonstrable need arising from sector specific issues which are not covered by guidance given in accounting standards.

We also believe that the Board should provide some assurance that the SORPs concerned are consistent with IFRS and IFRS for SMEs

Question 11: Do you agree with the Board’s proposal to develop a public benefit entity standard as part of its plan for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

We concur with the proposal to develop a public benefit entity standard as part of its plans. We note that confusion could arise as to whether such entities are publicly accountable. In addition, as noted in the response to question 1, we draw to your attention that there are significant state-owned companies in Ireland, which operate for profit and, as a consequence, we suggest that, in order to avoid confusion, Governments should be able to define certain entities as being “publicly accountable” in the context of financial reporting.

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?

We believe that a public benefit entity standard should cover all of the requirements for preparing true and fair view accounts, to reduce the possibility of diverging practices emerging.

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 concur with the list of issues set out, and propose no additional matters.

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?

We believe that the Board should provide such a statement, to assist in applying the guidance.

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?

Not applicable.

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

We agree with the proposed adoption date for IFRS of 2012, for Tier 1 entities. In relation to IFRS for SMEs, we believe that a staged approach would be useful. For transition purposes, companies could be divided into, for example, large, medium and small, under certain criteria. The large companies could then adopt IFRS for SMEs on day 1 with the other categories following suit at reasonable intervals.

This would assist in ensuring that those companies with the greatest resources bear the most significant part of the costs of application of the IFRS and, would ensure that those involved in the accounting and auditing process for the smaller companies, benefit from this experience.

In addition, a staged approach would help in ensuring that sufficient resources are available to assist in the migration exercise which will be considerable.

We believe that early adoption should be permitted.

Yours faithfully



KPMG
Chartered Accountants

Appendix

There are a number of activities that could give rise to ambiguity, and therefore differing interpretations as to whether they fall within or outside the Tier 1 proposal. Some examples (which are by no means exhaustive) are set out below.

Deposit takers

Many types of business routinely take deposits from customers as an integral part of their activities. Such deposits are often refundable if the intended transaction does not occur and may sometimes attract interest on the client's behalf. Examples include stockbrokers, solicitors, travel agents etc. The query arises as to whether such businesses, which would not generally be considered to be credit institutions, fall within Tier 1, because the deposit taking is an integral part of their primary business.

Traded on a public market or assets held for a broad group of outsiders

The question arises, for example, as to whether mutual societies such as cooperatives fall within Tier 1, because shares can often be held by a large number of members and may be tradable with other members, perhaps with the cooperative acting as a type of clearing house.

Similarly, ESOTs (Employee Share Ownership Trusts) which often have large numbers of members, may facilitate members by purchasing shares from them and either retaining them or issuing them to other members, again acting as a form of clearing house.

In Ireland, we have a number of types of investment fund vehicles which are quoted on an open market. However, while closed-end fund shares are normally capable of being traded, most open-end fund shares are normally not traded between members and can only be put back to the fund itself.

As a consequence, while technically they are quoted in a public market, the shares are not traded between members in the normal way and so the question arises as to whether these would be considered Tier 1 entities.

Publicly accountable

In Ireland, we have a considerable number of state-owned entities which are in business to provide services at a profit. Under the proposals it appears likely that they would not currently fall to be treated as Tier 1. However, they are clearly owned by the public (through the State) and provide public services and therefore appear to have a considerable element of "public accountability". The question therefore arises as to whether they should be treated as Tier 1 enterprises or whether they could be deemed as such by the Government.

Issues can also arise in relation to insurance companies. While reinsurance companies would normally not deal with the public, they take on the risks of other insurance companies which generally would be regarded as publicly accountable. As a consequence, the question arises as to whether reinsurance companies should be regarded as Tier 1, notwithstanding that their business is limited to dealing only with other corporates. Consideration also needs to be given as to whether general insurance entities should be considered “publicly accountable” or should this be confined only to life and pension insurance entities.

While captive insurance companies would appear to be regarded as Tier 1 under the proposals, this appears illogical as they normally deal solely with a related company and not with the general public.

A number of corporates self-insure, for example in relation to death benefit insurance, nevertheless, unless they themselves fall to be regarded as Tier 1 entities, it would appear that they are not so regarded under the proposals in spite of their insurance activities.

