

**London Finance & Investment Group P.L.C.**

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1<sup>st</sup> February 2010Peter Godsall  
Accounting Standards Board  
5<sup>th</sup> Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

Dear Sir,

Future of UK GAAP


I am responding to your consultation as the Chairman of London Finance & Investment Group plc, and I am also drawing on my experience as director, chairman and audit committee member of a number of smaller (and not so small) quoted companies over the last 40 years. For most of those years, I have also been an investor in both larger and smaller quoted companies, so I have extensive experience as a user of accounts as well as in their preparation.

During that time there have been many major developments in financial reporting, usually for the better, however the change over to IFRS has resulted in a major deterioration in the understandability of accounts. Part of this is the change in technical language, but the majority is due to the poor quality of some of the most important standards.

I am concerned that there appears to be a mad scramble to adopt the IFRS for SME's without a full analysis of the consequences. We all know that it is 10% of the length of full IFRS, and that it eliminates some of the options available under full IFRS, but beyond that we do not have a comparative analysis (from the ASB or an auditing firm) which would permit us to determine whether it is suitable for adoption in the UK in an amended or un-amended form.

Please find attached my comments on your specific questions.

Yours sincerely

 David Marshall

**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?**

Neither. Fully listed companies are required to use full IFRS as part of being on a regulated market. I am not convinced that anyone else should be required to use full IFRS (but they should continue to have the option to do so). The IFRS for SMEs states that it is not suitable for publicly accountable enterprises, but this is a bland statement which appears to be unsupported by any facts or argument. It is not clear how different the accounts of a company would be if it used the IFRS for SMEs rather than full IFRS. I believe that the differences may well be minimal, and the ASB should investigate this further before putting forward an ED on proposals for changes to UK GAAP. We need to know what the practical differences are between full IFRS and the IFRS for SMEs before we can make a judgement about who should use full IFRS or the IFRS for SMEs. *If the IFRS for SMEs has some differences from full IFRS that users think are important, it is likely to be better to adapt the IFRS for SMEs for use in the UK, to take account of those differences, rather than to require the use of full IFRS.*

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

No. I consider that the IFRS for SMEs should be the basis for UK GAAP and it should be up to prudential regulators or stock markets to determine whether companies should be required to use full IFRS. The FRSSE should remain for the smallest companies, but see our answer to Question 8 below. The IFRS for SMEs, *adapted as required for UK purposes* should then be available for use by all other UK companies.

**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?**

No. Please see our responses above. I believe that all publicly accountable entities should report using a UK version of the IFRS for SMEs unless they wish to use full IFRS, or are required to use full IFRS by their regulators or stock markets.

**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.**

No. I consider that all wholly owned subsidiaries should produce a full set of accounts using a UK version of the IFRS for SMEs (or full IFRS if they choose), unless their liabilities are guaranteed by a company that prepares a full set of accounts, or the subsidiary is an unlimited liability company, since this is the best way to provide creditors with assurance about the creditworthiness of the subsidiary. I believe that carve-outs from disclosures would create unnecessary complexity.

**Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?**

No. See answer to Question 2. I believe that the IFRS for SMEs, *adapted as necessary for UK purposes*, should be available for use by all UK companies, other than those required by regulators or stock markets to use full IFRS.

**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.**

No. I believe that the IFRS for SMEs will require amendment for use in the UK and the ASB should consult separately on such amendments. There may need to be changes to comply with EU directives, or UK company law. I would like changes in the language to eliminate IFRS jargon and make the standard more comprehensible to users and preparers. I would also like changes to make the resulting accounts more users friendly. Examples of such changes might be:

- Consistency: long term assets and liabilities are not discounted
- Clarity: market value is only used where there is an active market; financial assets and liabilities are not marked to model; partial provision only is made for deferred tax;
- Proportionate: reduced length of disclosures and simplified accounting for defined benefit pension schemes and share options

I recognise that this would introduce substantial changes in limited parts of the IFRS for SMEs, and would require the ASB to continue to maintain the standard over time. However, I consider that the advantages of having a relatively short (compared to full IFRS and current UK GAAP), user friendly, accounting standard justifies this. It will also demonstrate to the IASB how the UK thinks standards ought to be set and highlight the problems with the IFRS for SMEs, which might otherwise continue to be overlooked by the IASB.

**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.**

Yes. I consider that an IFRS for SMEs, suitably adapted for UK purposes, will give all the necessary information for users of large Non-Publicly Accountable Entities.

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

Yes

**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?**

Yes. I believe that the FRSSE should be replaced at some stage in the future with a version of the IFRS for SMEs suitably adapted for the UK, which is likely to mean wording changes to replace technical jargon, so that the standard can be applied by people lacking specialist skills.

**Question 10 to Question 14**

Not able to comment

**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?**

I anticipate that substantial benefits will arise, in both preparing and using accounts, from only having to understand an IFRS for SMEs (as adapted), rather than having to understand full IFRS.

This benefit can only increase if the standard is edited into plain English to take out jargon.

The benefit will be further enhanced if some of the requirements which make accounts less useful to users are eliminated. I recognise that such changes may make accounts less comparable with those in other countries, and with those prepared under full IFRS, but consider that this will be outweighed by their enhanced usefulness, and the possibility that the changes may have a beneficial influence on future developments in full IFRS. There needs to be some degree of competition in standard setting to help identify best solutions.

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

The proposed adoption date may be optimistic in the light of the consultation exercise that I think will be required to adapt the IFRS for SMEs for use in the UK, and any necessary changes to company law, for example to allow companies using full IFRS to change to IFRS for SMEs as adapted for use in the UK.