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Dear Mr Godsall

CONSULTATION ON THE FUTURE OF UK GAAP

BT welcomes the opportunity to comment on the above consultation document.

In principle we support the ASB in the reform of UK GAAP and the Board's intention to work under the IASB framework and to converge as far as possible with the needs of UK entities. In our opinion this will provide listed groups, such as BT, with the opportunity to harmonise their UK reporting under a common accounting framework. Whilst we believe that there are significant benefits in adopting such measures, we believe that minimising the costs of adopting either EU adopted IFRS or IFRS for SMEs for subsidiaries of listed groups should be a key objective of the Board. Furthermore, we have a number of concerns regarding the potential for differences to arise between the EU adopted IFRS and IFRS for SMEs for companies that are required to report their consolidated results under EU adopted IFRS.

As a general point, we are concerned about the decision usefulness and extra burden of having to prepare disclosures which are currently not required under UK GAAP for subsidiaries of listed companies, such as cash flow statements and related party disclosures. In our opinion where there are exemptions or reduced disclosures under UK GAAP, these should be reflected within IFRS for SMEs. We do not believe that these requirements are necessary or indeed justified from a cost / benefit perspective, which should be a key principle in finalising the IFRS for SME accounting standards.

Further, whilst in principle we support the simplification of IFRS, in our view there are two weaknesses with the current proposals. Firstly, in simplifying and reducing the choice of accounting treatments under IFRS for SMEs, for instance the capitalisation of borrowing costs, then this will potentially give rise to IFRS GAAP differences between subsidiary companies and the



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consolidated group. Additionally, given that the intention of the Board is to update IFRS for SMEs in the first instance after three years and thereafter every two years, this will result in a divergence of accounting treatment within listed groups as new EU adopted IFRS standards will be issued and adopted at a consolidated level far more frequently.

In our opinion, these practical problems could be overcome by providing dispensation to subsidiaries to allow them to adopt the same accounting treatment as the group, insofar as the IFRS for SME treatment differs from EU adopted IFRS.

In addition, it is disappointing that some of the more contentious aspects of the recent IASB ED for Income Taxes have been adopted in the proposal in advance of the full EU adopted IFRS. In particular, we note the following:

- **Definition and measurement of tax basis**

We disagree with the proposal to define the tax basis of an asset or liability as being assessed as if a consequence of sale or settlement at the reporting date. This is an example of a very detailed rules based approach which will introduce significant incremental work and judgement in the analysis of the tax consequences. In the vast majority of cases, the value of most non current assets will actually be realised through use rather than sale. Accordingly we do not believe recognising deferred tax balances on this basis will be useful to users of the accounts.

- **Elimination of initial recognition exemption**

There is little in way of guidance as to how these temporary differences should be accounted for and whether there will be a move to the contentious “entity-specific tax effects” as detailed by the recent Exposure Draft. We would prefer to see the continuation of the current IAS 12 exemption, which is straightforward to apply and easily understood until a more principles based approach is developed.

- **Investment in subsidiaries, joint ventures and associates.**

We can see no reasonable basis for the proposed exemption from deferred tax being recognised only in respect of investments in foreign subsidiaries and joint ventures, if certain conditions are met. This appears to be another example of an unnecessarily rules-based approach.

- **Uncertain tax provisions**

We do not agree with the proposals on uncertain tax provisions in the measurement of current and deferred tax for a number of reasons. They will result in all uncertain tax positions needing to be reviewed and measured using a probability weighted average amount of all possible outcomes for all uncertain tax positions. The proposal does not define how, or at what level of detail, or what unit of accounts, a tax position is to be analysed which will leave valuation open to differing interpretations and therefore inconsistent reporting.

In summary, IFRS for SMEs must be sufficiently attractive to the preparers of financial statements that the standard becomes the natural standard of choice for reporting under IFRS. However, within a group subsidiary context, universal adoption will only occur if the issue of potential IFRS GAAP differences between EU adopted IFRS and IFRS for SMEs is resolved and disclosures are kept to an absolute minimum.

We set out below our key comments and observations on the questions raised in the consultation document, insofar as they are considered relevant to BT.

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 support the Board’s proposal to simplify the definition of public accountability. The definition is practical and relatively easy to understand.

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

Subject to our response to Question 3 below, in principle we support the Board’s 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?

We recognise that the size criteria is an important consideration in determining whether an entity falls within a Tier 1 (EU adopted IFRS) category. However, we believe that there are further considerations which should be taken into account when determining whether or not an entity falls within the Tier 1 category. For instance in the case of a subsidiary, which has debt or equity trading in a public market but held by another group company, then in this instance we believe that it would be wholly inappropriate for such an entity to be deemed to be a publicly accountable entity. Consideration should therefore be given to who the debt and equity holders are and what the information needs of those users are, in determining whether the entity is genuinely a publicly accountable entity. Therefore where the debt or equity is held by other group companies they should not be considered to be included in Tier 1.

With that exception, however, we support the Board’s proposals that entities which have traded debt or equity instruments are publicly accountable and should therefore apply EU adopted IFRS.

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.

As already mentioned, we have two main concerns regarding the proposed reporting environment for subsidiaries of group companies. Firstly the GAAP differences between IFRS for SMEs and EU adopted IFRS will result in unwelcome consolidation adjustments where groups that report under EU adopted IFRS, have subsidiaries reporting under IFRS for SMEs. This problem will be exacerbated by the introduction of new EU adopted IFRS standards, subsequent to the issue of IFRS for SMEs; which by contrast will be a relatively static reporting framework, given the infrequent nature of the updates to the IFRS for SMEs standard. In our opinion, an exemption should be available for subsidiaries to apply their group accounting policies where they comply with EU adopted IFRS, in order to avoid the need for consolidation adjustments.

Secondly, we disagree with the Board's conclusion that the effect of modifying disclosure requirements would be marginal. Typically the purpose of producing statutory accounts for wholly-owned subsidiaries is to meet regulatory purposes, rather than to satisfy the needs of external shareholders who are far more interested in the annual report of the consolidated group. In summary therefore, we firmly believe that the adoption of IFRS for SMEs should not result in the withdrawal of current reporting exemptions under UK GAAP for subsidiaries, for instance: cash flow statements, segmental reporting, FRS 17 multi-employer pension, consolidation and related party disclosure exemptions.

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

We support this proposal.

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.

We support this proposal. As a group with many UK and overseas subsidiaries, we believe that consistency of accounting treatment should be a primary objective of the Board. Anything other than wholesale adoption of the IFRS for SMEs will give rise to local GAAP differences, something which would be undesirable, time consuming and expensive to correct at a group level.

In our opinion, any updates to IFRS for SMEs should be reflected immediately in the ASB standard. From a group perspective, anything other than a harmonised set of standards across all territories would give rise to local accounting treatments, which would have to be corrected on consolidation.

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 support this proposal.

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

We support the Board’s view that the majority of SORPS are dependant on IASB initiatives and that therefore there is a need for “transitional” arrangements to be in place, to the extent that full IFRSs do not address specific issues.

We would further add that accounting rules should be consistently applied for those industry sectors, such as telecommunications, where businesses typically operate in many different jurisdictions. In our opinion, the Board’s proposals would contribute to ensuring that standardised and consistently applied global financial reporting is achieved, to the extent that the rules are permissible in individual countries.

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?

We strongly believe that additional IFRS reporting, over and above that required under UK GAAP should be kept to an absolute minimum. In our opinion, the introduction of any new IFRS reporting requirements would appear to be counter-intuitive to the original rationale to support UK GAAP reporting concessions. If this objective could be achieved, then in our opinion transitional and on-going maintenance costs would be kept to a minimum. Alternatively if IFRS for SMEs was introduced without any meaningful exemptions, then large companies are likely to question the relevance of IFRS for SMEs and adopt for the reasons given above, full IFRS; which in our opinion would be a missed opportunity.

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

We would encourage further discussion regarding the proposed timescales, given that XBRL is being introduced in 2011 and that businesses will effectively end up doubling up on the XBRL reporting – once under UK GAAP and thereafter in 2013 under IFRS for SMEs or full IFRS as applicable. These dual changes will place additional burden on both the profit and not for profit sectors and in our opinion within a very short period of time, and for this reason we believe that businesses should be allowed some flexibility to defer adoption of IFRS for SMEs, by say a period of 12 months.



We trust these comments are helpful in contributing to your deliberations. If you have any questions or would like to discuss these comments, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Glyn Parry'.

GLYN PARRY
DIRECTOR OF GROUP FINANCIAL CONTROL
BT GROUP PLC

