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5 February 2010

Dear Mr Godsall

**Policy Proposal: The Future of UK GAAP**

The Wellcome Trust is the largest charity in the UK. It funds innovative biomedical research, in the UK and internationally, spending over £600 million each year. The Trust's £13 billion investment portfolio provides the income for its funding. The portfolio is managed by an Investment team that aims to generate a 6 per cent real return over the long term. The Trust has also issued bonds through its subsidiary, Wellcome Trust Finance plc, which are listed on the LSE and are AAA rated.

The response to your request for comments on the Policy Proposal is attached.

Yours sincerely



S. Jeffreys  
Chief Operating Officer

## Response to *Policy Proposal: The Future of UK GAAP*

The Wellcome Trust is pleased to have the opportunity to comment on the consultation paper *ASB Policy Proposal: The Future of UK GAAP*. The issues raised are substantial and this response has focused on Questions 10 to 14 as these are particularly relevant to the Wellcome Trust. The Wellcome Trust has fairly specific issues to consider as it is the largest charity in the UK and is funded from the return on its investment portfolio which is managed on an entirely commercial basis. It has also issued bonds through its subsidiary, Wellcome Trust Finance plc, which are listed on the LSE. A response has not been provided to questions 8 and 9 as these are not directly relevant to the Trust or questions 6 and 15 as it will be more appropriate to consider these when there is more certainty as to how the issues relating to public-benefit entities will be addressed. At least one further consultation will be necessary.

Whilst the Wellcome Trust supports a move in the UK towards greater use of international standards, the ASB should retain its right to set UK standards and the UK equivalent of EU approved international standards where necessary to reflect the needs of UK users and preparers.

### Question 1

*Which definition of Public Accountability do you prefer: the Boards 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?*

The definition proposed by the Board is more generic and definitive. The user of the accounts should be the focus and not the size of the entity.

Under these proposals, The Wellcome Trust would consider reporting its consolidated accounts under full IFRS in view of the audience at which the Financial Reports are aimed. When an organisation issues listed debt, this is traditionally at the level of the ultimate holding company and it is the full group accounts that the holders of the debt will be interested in. In the case of The Wellcome Trust, it has a wholly owned subsidiary that has issued listed bonds and is therefore publicly accountable in terms of the proposed definition, however the existing and potential investors in these bonds make decisions based on the consolidated Financial Statements of the Trust and not those of the issuing entity.

### Question 2

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

Generally yes. The purpose of IFRS is to establish high quality, compatible accounting standards that can be used for both domestic and cross-border financial reporting. Publicly accountable entities have a duty to the public to ensure that the information they present is relevant and reliable and IFRS provides a level of objective assurance. However, there are some industry specific issues that need to be addressed within the IFRS framework. This is covered in the responses to Questions 10 to 14. It may be too onerous to require smaller publicly accountable not for profit entities to report with full IFRS.

### 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?*

Yes. Each subsidiary may have a different risk profile and different users and the Consolidated Accounts may not provide sufficient information to evaluate this. In the case of a charity, there may be a trading entity that carries out non-charitable activities and is structured to ensure that it is operated and managed entirely independently from the charitable activities. However, reference should be made to the response to question 16 and the need to avoid a staggered implementation of the changes discussed in this Proposal.

## Response to *Policy Proposal: The Future of UK GAAP*

### **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.*

Yes in respect of items that are ring fenced and not relevant to the subsidiary

For example:

Employee benefits including Share Based Payments

Pension Schemes which are often governed on a Group Basis with no cross guarantees of liabilities

EPS -this is often influenced by group performance as are Distributable Reserves

Financial instruments – Risk management and exposure is often determined on a group basis

### **Question 5**

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

In principle, yes, as the cost of applying full IFRS for these entities may not be justified when evaluated against the value added to the users of these Financial Statements. The option to move up to Tier 1 should be maintained and a charity reporting under either Tier 1 or Tier 2 should be allowed to apply any agreed public benefit entity standard alongside IFRS or IFRS for SMEs.

This response does not propose to cover the quality of the IFRS for SMEs in detail as this is a substantial topic and it will be more appropriate for the Wellcome Trust to consider this when there is more certainty regarding the future of the existing SORP for Charities.

An additional point to be considered is that decisions on which entities are required or permitted to use the IASB's standards rest with legislative and regulatory authorities and standard-setters in individual jurisdictions and the basis of this decision should be disclosed in the Financial Statements of the reporting entity applying IFRS for SMEs.

### **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 views.*

Large entities, including not for profit entities, are more likely to have the resources needed to comply with IFRS requirements. In addition, the size of their net asset base may represent a potentially greater risk to users such as banks and insurers who need sufficient, consistent, high quality information to evaluate this risk. However, size should not be the sole determinant of which alternative to apply.

### **Question 10**

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

There is a possibility that with IFRIC providing the authoritative interpretation of IFRS and the existing SORPs providing a transitional role until the appropriate IFRS initiatives are in force, there will be considerable uncertainty within industries for which SORPs currently exist. The existing SORPs should remain in force until the issues discussed in questions 11 to 14 have been resolved and these industries should continue to report under UK GAAP. Those responsible for SORPs should update them regularly otherwise entities can opt not to comply and report under IFRS instead.

## Response to *Policy Proposal: The Future of UK GAAP*

### Question 11 and 12

*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?*

*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 the IFRS or the IFRS for SMEs need to be supplemented for the public benefit entity sector?*

The development of a public benefit entity standard is appropriate. This should be a practice statement providing guidance on the interpretation of specific areas of IFRS in the context of a public-benefit entity. A framework covering principles but not specific accounting requirements could lead to fairly subjective interpretation and application, separate standards would be very unwieldy to apply and could duplicate issues covered in IFRS for with-profit entities and supplementary text in UK GAAP would undermine the goal of convergence.

Emphasis should be placed on the similarities between public-benefit entities and profit-orientated entities and the standard should address only a limited number of issues. Further consultation should be had with IFRIC as to how the public-benefit entity issues should be addressed to support the ultimate goal of providing high quality, compatible accounting standards that can be used for both domestic and cross-border financial reporting. Without a common platform, a corporate public-benefit entity that has multi-national subsidiaries could be in the position of having to consider the industry specific standards of several accounting bodies and an unstable reporting platform.

### Question 13

*Do you agree the issues listed 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?*

Each of the issues is listed below together with the specific area that needs be addressed.

#### The presentation of the primary financial statements

- The treatment of other comprehensive income (such as changes in revaluation surplus, actuarial gains or losses on defined benefit plans, gains and losses from translating the financial statements of a foreign operation, gains and losses on remeasuring available-for-sale financial assets)
- Classification of expenditure by object/activity
- Definition and analysis of support costs
- Definition and analysis of governance costs
- Restricted versus unrestricted income

#### Fund accounting

- Movement on unrestricted versus restricted funds
- Definition of types of both restricted and unrestricted funds (e.g. pension fund deficits, foreign exchange differences on consolidation)

#### Revenue from non-exchange transactions

- Donations and grants and the current and potential impact of any restrictive conditions attached

#### Valuation of assets including impairment

- Valuation of assets that have a direct service potential and support the objects of the entity but do not result in direct cash inflows.

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### Business combinations

(using the IFRS 3 definition "A transaction or other event in which an acquirer obtains control of one or more businesses" This does not include Joint ventures, the acquisition of a group of assets that do not constitute a business or a combination of businesses under common control)

- Consideration needs to be given to the nature and purpose of the control and the calculation of the value added by the combination. Acquisition accounting as determined by IFRS 3 may not be appropriate.

### Financial Instruments

- IFRS does not recognise the concept of programme related investments. Where amounts are advanced directly in pursuit of an organisations charitable purpose and may or may not generate a return, consideration needs to be given to the appropriate treatment on the Balance Sheet so that the net value added to the organisation in allowing it to meet this purpose is adequately reflected.

### Liabilities

Accounting for current and multi-year grant commitments where the organisation has made a non-contractual commitment as a result of furthering its charitable objectives. This commitment may not meet the definition of a liability in IASB's Framework for Financial Reporting (a present obligation arising from past events, the settlement of which is expected to result in an outflow of the entity of resources embodying economic benefits). The charitable organisation will need to aim to ensure that it generates sufficient resources in the future to meet these liabilities as they arise and consideration needs to be given as to how this is reported in the Financial Statements.

### Identifying the reporting entity

- Where an organisation (the lead organisation) provides funding to another organisation (the receiving organisation) in order to enable it to pursue charitable objectives that are in line with those of the lead organisation, there may be ground for consolidating this receiving entity in the Financial Statements of the lead organisation even where the lead organisation does not control the receiving entity in the sense applicable to a profit-generating subsidiary
- A joint activity may meet the definition of a joint venture or an associate under IFRS but in the context of the charity, it may have the same ultimate effect as issuing a grant.

### Narrative Reporting

- The appropriate reporting of the role of the Trustees and the Governors is not addressed under IFRS. In addition, the benefits that the Trustees and Governors receive should be adequately and consistently reported in order for the users to evaluate the impact of this cost against the benefits that the organisation receives as regards the furtherance of its charitable purpose.
- The content of the Directors ' Report as required for with-profit entities should be incorporated in a Report of the Governors 'or the Trustees'

### Question 14

*The Board accepts that there may be a continuing need for guidance to supplement a public benefit entity standard in certain 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?*

Yes however further consultation should be had with IFRIC as to how the public-benefit entity issues should be addressed to support the ultimate goal of providing high quality, compatible accounting standards that can be used for both domestic and cross-border financial reporting.

## Response to *Policy Proposal: The Future of UK GAAP*

### **Question 16**

*What are your views on the proposed adoption dates?*

In view of the issues that still need to be resolved, it is considered that a change date for financial years ending on or after 1 January 2012 is too optimistic. To implement the necessary changes in stages would create additional upheaval, uncertainty and inconsistency. In view of the current economic environment and the fact that the existing IFRS platform has only recently achieved a level of stability, it is considered that the adoption date should be delayed until the majority of the issues raised in this proposal and the responses received have been addressed. The organisations that are most likely to be impacted typically have particularly limited resources to deal with the workload arising from major changes.

There are also significant implications for the Wellcome Trust if there is a staggered implementation of these proposals. The Wellcome Trust group does include a publicly accountable entity and could be placed in the position where this entity is obliged to report under full IFRS while the group is still required to report under UK GAAP. (See the response to question 1 above regarding the requirements of the investors.)

The restatement of prior year comparatives will add to the work involved in the convergence exercise.