

J.P.Morgan

FAO: Peter Godsall
ACCOUNTING STANDARDS BOARD
5th Floor, Aldwych House
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London WC2B 4HN
(By email: ukgaap@frc-asb.org.uk)

Dear Peter,

The Future of UK GAAP

We write on behalf of J.P. Morgan (Europe) Ltd, a business entity of the wider J.P. Morgan Group. As a firm, J.P. Morgan supports the Accounting Standard Boards (“ASB”) proposal to enhance convergence with IFRS through the adoption of full IFRS for publicly accountable entities and IFRS for SMEs for non-publicly accountable entities.

We welcome the opportunity to comment on the ASB’s Consultation Paper - Policy Proposal “The Future of UK GAAP” and agree with the direction being taken in relation to International Accounting Standards convergence.

J.P. Morgan Worldwide Securities Services (WSS) provides fund accounting and administration services for a wide and diverse range of clients and investment vehicles across our global locations including the UK and Ireland. Amongst other things we act as preparers of financial statements for 30 clients, and in excess of 600 funds across our UK and Irish based operations, encompassing open ended Collective Investment Schemes (“CIS”) ranging from UK and Irish oeic’s (ICVC’s/VCC’s), Unit Trusts, and Charity Common Investment Funds. Additionally we prepare financial statements for Investment Trust Companies and provide primary financial information for vehicles such as unitised Life and Pension companies and Institutional Segregated mandates, in GAAP compliant formats for inclusion within the accounts of our underlying clients.

The commentary and responses provided below are intended to compliment the views and opinions previously expressed by J.P. Morgan directly and through the various trade and industry bodies where we are represented.

The long held view of J.P. Morgan is that IFRS should be adopted in its full and standard form to the maximum extent possible, with no local or jurisdictional variations, to ensure optimal effectiveness, consistency and comparability of statements.

It is our intention to focus our responses in this letter to those areas which have a direct impact on our J.P. Morgan WSS business and operations relating specifically to the accounting and associated regulatory and tax practices applicable to CIS.

The ambition to develop a “high-quality, fit-for-purpose...framework that addresses comprehensively all entities” is commendable; however a key concern for us is that IFRS has some evident gaps in relation to current accounting (and associated regulatory and tax compliance) requirements for CIS, which are addressed by applicable SORP.

We therefore advocate that where gaps or uncertainty exist no significant change to approach should be made mandatory until appropriate equivalent guidance is introduced.

Need to provide Relevant Disclosures

The ASB notes that there is a desire to ensure reporting requirements are effective but simplified, and produce more relevant, comparable, and understandable information. It is our belief that the removal of a SORP for Authorised Funds may actually require more ‘irrelevant’ information e.g. the inclusion of a cash flow statement is unlikely to bring any real benefit to the user of financial statements.

In this regard we would urge you to ensure that exemptions, or concessions that are afforded to preparers of statements for CIS are carried forward into any future state model, for example Reduced Disclosures may be appropriate under certain circumstances (the benefits derived from reporting a cash flow statement for a CIS may be limited).

In Addition we would urge that consideration be given to requirements, which after careful consideration on the part of industry participants were considered to deliver little/no benefits for the users of CIS financial statements and were deemed unnecessary, but which could be reintroduced through implementing IFRS. For example CIS are not currently required to report ‘unrealised vs. realised’ gains and losses separately. This exemption is absent from IFRS. The re-introduction of requirements such as these could have significant systems and procedural impacts for the preparers of financial statements.

Consequently, although our overarching premise is that IFRS should be implemented consistently in its full form, in practice we believe that there may be limited areas where reduced disclosures may be appropriate. We therefore recommend that ASB continue to require the use of appropriate SORPs in areas where IFRS is either silent or unclear on certain industry specific issues until such time as equivalent guidance is included in IFRS.

We also find it confusing that there is a “Future Recommendation” for the withdrawal of the respective SORP’s for AIC companies **and** Authorised Funds but a specific reference **solely** for the AIC to determine themselves whether additional guidance would be needed. We would like the ASB to provide more clarity around why only the AIC have been asked whether additional guidance is required.

Revenue vs. Capital Concept

A fundamental ‘concept’ in the administration of UK Authorised, and other, CIS is the distinction between Capital and Revenue returns, and it is of particular concern to us, as preparers of financial statements for these vehicles that this distinction is not drawn in current IFRS. Also UK CIS are currently obliged to distribute 100% of net distributable revenue on an annual basis to maintain “Authorised” status (defined within the SORP). Authorised status not only affords benefits relating to the investor base that funds can be distributed to, it also provides for beneficial tax treatment (e.g. capital gains realised within the CIS are exempt from Capital Gains taxes, and as the UK tax authorities

operate on the basis that 'tax follows accounts', 'taxable income' will equate with recognisable net Revenue).

Additionally CIS are typically priced and dealt on a daily frequency, and will commonly operate a concept of 'income equalisation' whereby net accumulated Revenue should be capable of being calculated and reported daily on a fully accurate basis (This calculation is influenced by applying the guidance from the relevant SORP).

The lack of any IFRS guidance in this area would leave a considerable gap, and could open up the potential for a requirement to maintain multiple books of records. This is a key issue where we would hope that the ASB will acknowledge that they have a continuing role to play (at least, until equivalent guidance is included in IFRS).

We applaud the ASB's stated intention to focus resource on ensuring that IFRS satisfies the needs of all regional constituents, and would urge you to lobby the IASB to include relevant guidance in IFRS where areas are identified that may lead to confusion or uncertainty in relation to how certain scenarios should be accounted for.

I hope you find our feedback useful. If there are any areas you would like to discuss further please do not hesitate to contact me on 0131 270 4650 or John Drysdale on 0131 270 4322

Yours faithfully
Paul McLaughlin

Below are our specific responses to the questions raised.

Questions Posed:

Consultation Paper Question	Response
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?	Overall we prefer the Board’s definition. It is hard to argue that collective investment schemes would not fit the Tier 1 criteria irrespective of their size.
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 publicly accountable entities should be included within Tier 1 subject to our key concerns discussed previously.
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 comments
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 comments
Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?	No comments
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 comments
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.	No comments
Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?	No comments

Consultation Paper Question	Response
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?	No comments
Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not	<p>We agree with the ASB’s views. However in areas where IFRS lacks guidance there is an argument for SORP to be retained until appropriate/alternative guidance is included in IFRS.</p> <p>J.P. Morgan believes the SORP’s for funds provide good summary guidance of the key accounting principles that are most applicable to collective investment schemes.</p> <p>The SORP works well and it would be counterproductive to withdraw it, without consideration of implementing an equivalent document which has similar ‘recognition’.</p> <p>In particular we wish to stress that the concept of Capital v Revenue is foreign to IFRS, therefore the removal of the SORP would also remove any guidance on how profit and loss should be split between revenue and capital, unless appropriate equivalent guidance was introduced.</p> <p>We note also that you concede that “SORP making bodies will need to review IFRS to the extent that these standards may negate the need for SORP” and as such it will be difficult to make an informed decision whether there remains a need for a SORP until the full suite of EU Adopted IFRS is known.</p>
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?	No Comments
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 SME’s needs to be supplemented for the public benefit entity sector?	No comments
Question 13 – Do you agree the issues listed in the above table	No comments

Consultation Paper Question	Response
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?	
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?	J.P. Morgan has no comments to make on this particular item, with the sole exception of the treatment of [Charity] Common Investment Funds. We believe that the existence of a SORP-like paper or its equivalent would be of benefit to these vehicles, if guidance is not otherwise incorporated into existing standards.
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?	<p>See discussions above for the likely effects of applying the new requirements.</p> <p>As preparers of financial statements we would envisage that significant costs would be incurred to implement changes under these proposals. At this time it is difficult to quantify the costs, and the changes that could be needed can not be fully planned for until the end-state requirements are known.</p> <p>It is envisaged that costs will be incurred in relation to:</p> <ul style="list-style-type: none"> - Technology developments and procedural change - Project resourcing - Consultancy and Auditor fees
Question 16 – What are your views on the proposed adoption dates?	<p>The proposed adoption date is overly aggressive, and given both the track record thus far, and the general ‘time to implementation’ on relatively complex European level measures it is likely that a number of issues may take more time than anticipated to resolve.</p> <p>After having taken account of the requirements for comparatives, the actual ‘readiness’ date accelerates the proposal by a year at least, and there still remains certain changes to standards that may be relevant to us which are not yet finalised. This will hinder a properly planned transition.</p>