

Our ref: BT/ASB
Your ref: Consultation paper: The Future of UK GAAP
Via email: ukgaap@frc-asb.org.uk

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Dear Mr Godsall

Consultation paper: Policy Proposal - The Future of UK GAAP

We thank the ASB for the opportunity to comment on this critical and far reaching consultation on the Future of UK GAAP.

We support the steps taken by the ASB to ensure that all publicly accountable entities prepare accounts under a comparable accounting framework, and also support the proposal for Tier 2 entities to use IFRS for SME, thus also improving comparability in that group.

We would encourage the withdrawal of the FRSSE for all entities other than micro entities in order to limit the number of reporting frameworks in operation for companies, and to remove certain anomalies where the FRSSE allows a choice of treatment that the IFRS for SMEs prohibits, for example the revaluation of non Investment Property.

We would encourage further consultation with the public benefit sector, in order to find a high quality, principles based framework which incorporates a proportionate “think small first” approach reflecting the wide range of activities and sizes of public benefit entities in the UK.

Our responses to the specific questions raised by the ASB are included in the attached appendix, together with further detail on the above points.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

John Hudson
Baker Tilly UK Audit LLP
Encs– Appendix A

Appendix 1 – Detailed responses to specific questions

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?

Of the definitions provided, we prefer the Board’s proposal as opposed to the current legal definitions in Sections 384 and 467 of the Companies Act 2006 for the following reasons:

- The Companies Act definition is too dependent on the size of the company which is unhelpful as there are small companies that are publicly accountable and large private companies that are not.
- The Companies Act definition would require subsidiaries that are members of an ineligible group to prepare their accounts under IFRS which would impose IFRS on a large number of companies for whom the additional requirements would be largely irrelevant.
- The Board’s definition covers entities that are in the process of issuing listed instruments which would not fall within the scope of the Companies Act definition.

It is vital that the definition adopted is clear and unambiguous. We have three comments on the Board's definition, in paragraph 2.3:

- (a) The definition does not make it explicitly clear that it is sufficient and necessary for an entity to satisfy either or both of the two conditions in order to have public accountability; we suggest that the word "or" is included as it is in the IFRS for SMEs definition of public accountability.
- (b) The definition needs to make it clear that IFRS is required for the consolidated accounts of all listed companies. We can see no good reason to make a distinction between companies listed on different markets for the purposes of defining ‘public accountability’.
- (c) The Board's definition uses the term "deposit-taking entity"; it would be helpful if this term was itself defined.

Whilst we support as few tiers of regulation as possible we wish to highlight that the proposed definitions for public accountability may have unintended consequences and in developing the Exposure Draft we would encourage the Board to ensure they are confident these have been investigated. The requirement in para 2.3(i) for the entity having “public accountability if its debt or equity are traded in a public market ... (a domestic or foreign stock exchange or an over the counter market, including local and regional markets)” may impose a more demanding reporting framework on a UK Company compared to an overseas company listed on the same exchange. For example, consider a company which has listed some financial instruments on a small overseas market which has no requirement for IFRS. The proposals in 2.3 (i) would require this entity to apply full Tier 1 regulation to its accounts and hence apply IFRS as it meets the definition of public accountability as shown above. This will have the impact of increasing the burden on UK companies trying to obtain finance in overseas markets, although it will of course increase comparability for these entities. We would

therefore encourage the Board to consider the impact that UK Company Law has on UK companies conducting business overseas.

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

Yes. EU adopted IFRS is the most appropriate financial reporting framework for publicly accountable entities.

Paragraph 1.2 should also include PLUS-Listed and PLUS-Quoted within 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?

Yes, we consider that each publicly accountable entity should apply EU adopted IFRS, regardless of whether or not they are wholly owned subsidiaries. The IFRS for SMEs was not designed for publicly accountable entities therefore EU adopted IFRS is the most appropriate framework.

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. The users of the financial statements of a publicly accountable entity will require information specifically about that entity’s financial performance and position rather than aggregated information about the group that would be found in consolidated financial statements containing the publicly accountable entity.

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

Yes. We believe that allowing 'Tier 2' entities to apply the IFRS for SMEs is consistent with the principle of proportionate regulation.

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.

The requirements of the IFRS for SMEs should be adopted unamended. Amendments would have the potential to reduce comparability, cause unnecessary confusion and increase the complexity of audit reports, which are required to refer to the framework used in the preparation of the financial statements.

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 review.

As noted in our response to Question 1, we do not consider that large companies necessarily have public accountability. We agree that non-publicly accountable entities should be permitted to adopt the IFRS for SMEs, irrespective of their size. Entities that are not publicly accountable should be subject to significantly less demanding reporting requirements than those that apply to entities that are publicly accountable. Where a company's shares are not being publicly traded or marketed there is less need for direct comparability. The additional costs to non-publicly accountable entities of preparing EU adopted IFRS accounts would exceed the benefits to users from increased comparability.

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

No, we consider that the FRSSE should be replaced by the IFRS for SMEs at the first practical opportunity. Retaining the FRSSE as an option for the small companies in general would reduce the comparability of financial statements. Decreasing the number of financial reporting frameworks in use would reduce the regulatory burden on preparers of financial statements and their professional advisers.

We await with interest the outcome of the European Commission’s proposal to allow National governments to exempt very small businesses ("micro-entities") from current EU rules on financial reporting. We would welcome further discussion as to the appropriateness of retaining the FRSSE for micro-entities only.

We believe that entities using the FRSSE, with the exception of micro entities, should adopt the IFRS for SMES at the same time as other non-publicly accountable entities.

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?

As noted in our response to Question 8, we consider entities using the FRSSE, with the exception of micro entities, should adopt the IFRS for SMES at the same time as other non-publicly accountable entities. If this proposal is not followed, then we would support as short a transition period as possible.

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

Yes. Where there is no appropriate standard or interpretation under IFRS sector specific guidance will still be required. We support the Board's proposal to restrict the number of SORPs to which it provides endorsement in order to reduce complexity in financial reporting. We agree with the Board's comments on the individual SORPs set out in paragraph 2.36 except that:

(i) we do not support the retention of a version of the LLP SORP for entities using the FRSSE, as we consider that non-publicly accountable LLPs should adopt the IFRS for SMEs;

(ii) we support the retention of the key requirements of the AIC issued SORP: 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. In particular, on account of the relevant legal/taxation requirements, the separate disclosure of revenue/capital items and of distributable/non-distributable amounts should be retained.

There will be specific matters to consider in respect of individual SORPs, and we would encourage further consultation on these issues. A public benefit entity standard may reduce or eliminate the need for additional sector-specific guidance for public benefit entities.

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?

Yes. In the short-term, we support the proposal to develop a public benefit entity standard for the United Kingdom. In the long-term, we would encourage national and international standard setters to work together to develop a single set of high quality, understandable and enforceable global accounting standards for public benefit entities.

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 consider that this is an important decision and we recognise that there are advantages and disadvantages to both approaches.

The paper rightly acknowledges in "that public benefit entities have different objectives, different operating environments and other different characteristics to profit-orientated entities". A stand alone public benefit entity framework would allow for these differences and needs of the stakeholders in public benefit entities to be considered in all aspects of financial reporting and ensure that meaningful comparisons can be made between public benefit entities in all sectors.

On the other hand the adoption of a supplementary standard for public benefit entities would make it easier for those who regularly use the financial statements of commercial companies to understand the financial statements of public benefit entities.

We believe that further consultation is required with interested parties in the “not for profit” sector in order to develop a public benefit entities standard that is fit for purpose.

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?

Yes. A public benefit entity standard might also cover:

- donated assets and services;
- heritage assets;
- inalienable assets;

- impairment of assets that were not purchased to generate cash flows;
- programme related investments ('social investments');
- recognition of income where funding is based on the entity's expenditure;
- relaxation of requirements in respect of persons who can provide valuations;
- summary financial information;
- transactions with those charged with governance.

Question 14 – The Board accepts that 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?

Yes. The Board should be involved in the development of sector specific guidance in order to maintain the credibility and consistency of financial reporting in each sector.

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 have no comments on this question.

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

We support the proposed adoption dates. We believe the time available will be sufficient for the vast majority of entities affected.