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Our ref **blp/815/kaf**

Contact **Lynn Pearcy**
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26 January 2010

Dear Sirs

Policy proposal: The future of UK GAAP

KPMG in the UK welcomes this consultation and the prospect it raises of imminent certainty of the future shape of the reporting framework for UK entities. We support the ASB's stated aim of enhancing convergence with IFRS through the adoption of the IFRS for SMEs into UK GAAP and of full EU-adopted IFRS by publicly accountable entities. We also support the ASB's intention to retain the responsibility for future changes to UK GAAP, rather than ceding this to the IASB.

The paper asks important questions about which entities should be seen as having "public accountability". The ASB proposes a definition of public accountability which is based broadly on the IASB's definition. Whilst we acknowledge that an alternative definition of public accountability based on size would be familiar to UK entities and would set clear boundaries for the selection of the appropriate reporting framework, on balance we see no clear reason to deviate from the IASB's approach to public accountability. It is, however, important for there to be clarity over an entity's applicable reporting framework and we note that there may be definitional issues at the margin of the proposed definition, which may necessitate the inclusion in the final ASB standard of guidance (perhaps by reference to FSA-regulated entities) on what is meant by "holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses".

The ASB proposes no disclosure exemptions for subsidiaries either required or choosing to report under full EU-adopted IFRS – even those that are wholly-owned. We support the approach taken in respect of *publicly accountable* subsidiaries applying full EU-adopted IFRS. However, in our view certain disclosure exemptions should be given to wholly-owned *non-publicly accountable* subsidiaries which – perhaps to simplify group reporting – wish to adopt the recognition and measurement requirements of full EU-adopted IFRS for consistency with the basis of preparation of the consolidated financial statements of the wider group. Further, in our view, similar disclosure exemptions should be afforded to wholly-owned non-publicly accountable subsidiaries reporting under the IFRS for SMEs.

The ASB proposes to make no UK-specific amendments to the IFRS for SMEs. We are concerned that in some areas this may result in “gold-plating” of existing EU legislation, notably as regards exemption from the preparation of consolidated financial statements where the proposed approach may require more entities to prepare consolidated accounts than at present. In our view, the law should determine what accounts should be prepared and accounting standards should provide the tools to determine how these accounts are prepared. UK-specific amendments to the IFRS for SMEs may therefore be necessary in order to avoid any such inconsistencies between the requirements of the standard and UK law.

Responses to specific questions raised

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?

Our preference is for the Board’s proposal. Whilst a definition based on the current legal definitions may initially appear attractive and straight-forward to apply, we concur with the Board’s view that such a definition will, in some cases, fail to meet the needs of users of the financial statements. The legal definitions would encompass all public companies, regardless of whether they are publicly traded. Further, in marginal cases, it may also be that whether the size criteria of the Companies Act are met will vary depending upon which accounting regime is applied: this would be an unsatisfactory position. Companies are also more likely to move between size categories over time than to move in or out of the Board’s proposed definition of Public Accountability. Given the lack of guidance on accounting for a transition between accounting regimes which does not constitute first time adoption (please see our “other comments” at the end of our response), the incidence of this situation should be minimised. Also, to differentiate on the grounds of size could result in entities of differing sizes within the same industry sector reporting under different frameworks; this would not aid comparability of financial statements within the industry sector, whereas differentiation based on the nature of the entities’ businesses would be more likely to result in comparability.

However, we consider that additional guidance is required as to what is meant by “holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses”. Each element of this definition is open to scrutiny and judgement:

- What is meant by “fiduciary capacity”? For example, we presume that a firm of solicitors holding client monies would not be, and that pension schemes are, caught by the definition.
- What is meant by “broad” and “outsider”? For example, if a group entity holds assets in a fiduciary capacity on behalf of fellow group entities; would this be considered to be a “broad group of outsiders”?
- What is considered to be a “primary business”? At what level would a business be considered to be “primary”?

As a specific example, we note that the consultation paper cites “insurance companies” as an example of a type of entity that is either a deposit-taking entity or an entity which holds assets in a fiduciary capacity for a broad group of outsiders. It is not immediately apparent that insurance companies (other than life-assurers) would necessarily be caught by this definition. Further, a definition of “insurance company” is necessary in order to distinguish (if applicable) between companies assuming insurance risk and those acting as insurance brokers.

In our view, the boundary between Tiers 1 and 2 should not be open to judgement – there needs to be clear, unambiguous guidance on the definition of Public Accountability that is not open to interpretation, such that directors can be clear that their chosen approach is that required by law for their entity. Such guidance could be in the form of a list of activities that are and are not, for the avoidance of doubt, considered to result in an entity carrying out those activities being classified as publicly accountable. This is necessary to avoid both inconsistency in the selection of the appropriate accounting regime between similar entities with similar activities and differences of opinion between preparers, users, auditors and regulators of financial statements.

We also note that it is currently unclear how the proposed tiers would be integrated into the existing requirements of the Companies Act 2006, which currently requires companies subject to the IAS Regulation to prepare “IAS group accounts” and affords other companies a choice between “IAS group accounts” and “Companies Act group accounts”. Further, the definition of public accountability chosen must be capable of integration with the Companies Act 2006 requirements in a manner so as not to introduce additional complexity in financial reporting. For example, whether a company within the small companies regime choosing to report under the IFRS for SMEs or full EU-adopted IFRS would continue to be entitled to file abbreviated accounts. Please also see our comments below in relation to the current scope of the FRSE and the applicability of the proposals to individual accounts.

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

Yes, we agree that all entities that are publicly accountable, including those that are small, should be included in 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 agree with the Board’s proposal.

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, we do not consider that wholly-owned – or any other – subsidiaries that are publicly accountable should be allowed reduced disclosures.

However, we consider that wholly-owned subsidiaries that are not publicly accountable should be afforded reduced disclosures, whether they apply the IFRS for SMEs or choose to adopt full EU-adopted IFRS. The types of disclosure reductions we envisage would include, as under current UK GAAP, exemption from the presentation of a cash flow statement, exemption from the presentation of certain financial instrument disclosures (for those applying EU-adopted IFRS) and exemption from disclosure of intra-group related party transactions. These disclosures are perceived by many as adding little value to the overall view presented by such financial statements and may be considered unnecessary on a cost-benefit basis. In the case of related party transactions, this omission also would be consistent with the position reached in the recent amendment to UK law and FRS 8. The position reached as regards disclosure exemptions for wholly-owned subsidiaries needs to be consistent with the outcome of the FRC's consideration of complexity in financial reporting, whereby the aim is to ensure that the requirements for reporting by wholly-owned subsidiaries are targeted and proportionate.

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

Yes, we agree with the proposal. We agree that, in the longer term, maintenance of UK GAAP in its current form is not sustainable. In an area that affects many thousands of UK companies, we believe that the UK standard setter is the appropriate body to balance the costs and benefits for the UK and, accordingly, full international standards should not be mandated directly for companies that are not publicly accountable.

We note, however, that many UK companies, particularly subsidiaries of groups reporting under EU-adopted IFRS, may prefer to choose to adopt EU-adopted IFRS rather than moving to a new set of requirements that differs both from current UK GAAP and EU-adopted IFRS. Further, given the tentative plans of the IASB to revise the IFRS for SMEs on a three year cycle, the use of this standard by subsidiaries of publicly accountable parent companies may have an unacknowledged adverse cost/benefit implication as regards the timing of implementation of changes to full EU-adopted IFRSs that are incorporated into the IFRS for SMEs only later (resulting in further consolidation adjustments). Given transitional rules, these timing differences may sometimes be permanent, even if the IFRS for SMEs, when changed, is changed to mirror precisely the changes made to full EU-adopted IFRS.

We also refer you to our responses to Question 6 (where we discuss some of our concerns over the requirements of the IFRS for SMEs).

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, although we would support only minimal change where positively required, we do not agree that the IFRS for SMEs should be adopted wholesale without amendment.

We are particularly concerned that the provisions of the IFRS for SMEs as regards exemption from preparation of consolidated financial statements are more onerous than the requirements of current UK law. Specifically, the IFRS for SMEs (paragraph 9.3(a)) grants an exemption from consolidation only for companies included in a higher consolidation prepared in accordance with full IFRSs (not EU-adopted IFRSs – see comment below) or the IFRS for SMEs. Under UK law, companies may also be exempt from consolidation on the grounds (among other conditions) of inclusion in a higher consolidation prepared on a basis of (or equivalent to) the EU Seventh Directive (which may not have been prepared under any of full IFRS, EU-adopted IFRS or the IFRS for SMEs – e.g. German GAAP, Dutch GAAP etc). Small companies are also exempt from consolidation under UK law on the grounds of size – if such companies choose to adopt the IFRS for SMEs rather than the FRSSSE, without any change in the IFRS for SMEs it would appear that they would no longer be eligible for such an exemption, i.e. the interaction of law and the IFRS for SMEs, compared with that of law and EU-adopted IFRS, leads to a more onerous outcome for users of the IFRS for SME, which we do not believe is appropriate.

We note that the tax accounting requirements set out in the IFRS for SMEs are based on the proposals in the IASB’s ED/2009/2 Income Tax. We further note that there is no guidance in the IFRS for SMEs regarding how to account for the deferred tax arising on assets and liabilities which would otherwise be covered by the initial recognition exemption in IAS 12. Given that the IASB’s project on this is now unlikely to proceed in its current form, we consider that the tax accounting requirements of the IFRS for SMEs as adopted for use in the UK should instead be based on the requirements of IAS 12.

Other areas of the IFRS for SMEs which, in our view, require amendment for use in the UK include:

- The references to full IFRS in the IFRS for SMEs should be replaced with references to EU-adopted IFRS as, for example, otherwise this may result in confusion over which version of IFRS should be consulted for further guidance in applying paragraph 10.6 of the IFRS for SMEs, particularly as there may be a time lag between each version and in some cases different effective dates for new requirements. We envisage that it would be more appropriate from a consistency point of view for all UK companies to refer to EU-adopted IFRS rather than full IFRS.
- As noted in the response to Question 4 above, we consider that wholly-owned non-publicly accountable subsidiaries applying the IFRS for SMEs should be afforded certain disclosure exemptions.

We set out in an Appendix a selection of further differences between UK GAAP and the IFRS for SMEs not listed as differences in the consultation paper, which we do not necessarily consider should be revised in a UK-adopted version of the IFRS for SMEs, but which the Board may wish to bring to the attention of UK companies.

We also refer you to our “other comments” at the end of this letter, which include some further aspects to consider in relation to consistency with current UK legislation.

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, we agree with the Board’s proposal that large non-publicly accountable entities should be permitted to adopt the IFRS for SMEs. We refer you to our response to Question 1; we do not consider that a definition of Public Accountability based on size is appropriate.

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

Yes, we agree that the FRSSE should remain in force for the time being.

However, we note that the scope of the current FRSSE excludes companies that are members of ineligible groups (for example, subsidiaries of listed parent companies) and companies preparing accounts in accordance with the fair value accounting rules of the Companies Act. Small companies falling within these categories would not, therefore, be eligible to apply the FRSSE under the proposed regime; either this should be clarified in the Board’s final requirements or the scope of the FRSSE should be amended.

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. In the longer term, it may become inefficient to maintain the FRSSE separately, once UK GAAP has been replaced by the IFRS for SMEs. We envisage that the earliest that the FRSSE could be replaced by the IFRS for SMEs is once it has been subjected to the IASB’s proposed initial implementation review (proposed to take place once two years of financial statements using the IFRS for SMEs have been published by a broad range of entities).

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

Although we agree that SORPs should remain only where there is a clear and demonstrable need arising from sector-specific issues not covered by guidance in accounting standards, we do not agree with all of the Board’s proposals regarding specific SORPs.

For example, it is our understanding that pension schemes will fall within the Board’s definition of “publicly accountable” given that they hold assets in a fiduciary capacity on behalf of a broad group of outsiders. This would therefore require the adoption of EU-adopted IFRS, which includes IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. We would therefore envisage that the current SORP would be reviewed for consistency with IAS 26 and other EU-adopted IFRSs and consideration given to whether there remains a clear and demonstrable need for the SORP. In our view, such a (revised as necessary) SORP will continue to be required as it provides more extensive guidance of particular relevance to UK pension schemes than IAS 26.

Further, we consider that there will continue to be a need for an LLP SORP, as it provides guidance on matters applicable only to this sector. We do not understand the proposal to incorporate the requirements of the SORP into the FRSSE; many LLPs will not be within the scope of the FRSSE but would still benefit from the specific guidance available in the SORP (which would be required to be reviewed for consistency with the IFRS for SMEs and/or EU-adopted IFRS, as we envisage that certain LLPs may be publicly accountable).

More generally, the consultation paper refers to SORP-making bodies needing to review “IFRS” to the extent that these standards might negate the need for SORPs (paragraph 2.32). It seems that this may have been drafted with the hierarchy proposed in the exposure draft of the IFRS for SMEs in mind. As this hierarchy is not included in the final standard, consideration of full (EU-adopted) IFRS may not always be relevant. Where entities within the scope of the SORP are not publicly accountable, we would expect such a review to be of the IFRS for SMEs. Similarly para 2.35 refers to replacing certain SORPs with “full IFRS” – in some cases we would expect that the IFRS for SMEs would apply rather than full (EU-adopted) IFRS.

Please see our responses to Questions 11-14 in relation to 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, we agree with the Board’s proposal to develop a public benefit entity standard, based on the principles of the IFRS for SMEs and/or EU-adopted IFRS accordingly.

However, we acknowledge that this may be cumbersome to implement, given that some public benefit entities will be publicly accountable (e.g. friendly societies) and others will not. Hence areas where EU-adopted IFRS and the IFRS for SMEs are inconsistent will present a challenge for inclusion in a single public benefit entity standard, and we concur with the Board’s view that IFRIC is the body that should provide authoritative interpretations of IFRS.

We also note that the use of the term “public-benefit entity”, allied with the more detailed definition in paragraph 3.5 of the consultation paper (“...an entity that is organised and operated primarily for community or social benefits...”), could prima facie suggest that such entities may be considered to be publicly accountable (in the wider sense of that term). We suggest that the definition of a public-benefit entity needs to be tightly drawn to avoid any such ambiguity (albeit, as noted above, that certain public-benefit entities may also meet the Board’s definition of publicly accountable); this could perhaps be achieved by focusing on the “not-for-profit” element of the definition of a public-benefit entity in paragraph 3.5.

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?

If a public benefit entity standard is developed, we believe that it should cover all requirements for preparing true and fair view accounts. This would be advantageous from a practicality point of view, providing a single source of reference for preparers and users of such accounts. We note that a single public benefit entity standard would also provide an ideal opportunity to eliminate the differences that have, historically, developed between different types of public benefit entities, for example on the treatment of the credit arising on acquisition of another public benefit entity with no consideration passing.

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?

We agree with inclusion of the issues listed in the table as being distinctive for the public benefit entity sector. We propose no additional issues.

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?

Yes, we consider that the Board should continue to provide a Statement confirming that any such guidance is not inconsistent with UK GAAP. This should assist in reducing inconsistencies in interpretation. If drafted appropriately, this would be application guidance rather than interpretation; drafting bodies would have to take care to work within those parameters.

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?

No comments.

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

We concur with the proposed adoption date of 2012. Given the Board's well-publicised aim of enhanced convergence with IFRSs, such an adoption date would see a welcome and imminent end to the current uncertainty over the future of UK GAAP.

However, we note that the proposed timetable may be ambitious, given that the Board's position will not be finalised until late 2010 at the earliest. Entities need to be given as much time as possible to deal with the practical matters related to a change in financial reporting regime, for example: education and training, system amendments, tax elections, bank covenants and remuneration/bonus arrangements.

In relation to public benefit entities, as discussed above, the proposals may require the development of a public benefit entity standard and, potentially, additional sector-specific guidance. Similarly, any remaining SORPs would need to be reviewed for consistency with EU-adopted IFRS or the IFRS for SMEs as appropriate. We consider that all UK entities should be required to apply the same adoption date, particularly as some public benefit entities may be Companies Act companies. This will necessitate the swift development of a public benefit entity standard and any necessary related industry-specific guidance.

Other comments

- We consider that the final proposals should clarify whether they are intended to apply to both consolidated and individual accounts. For example, the consultation paper states that adoption of EU-adopted IFRS is required for fully listed entities; this is currently mandated only in the consolidated accounts of such a group, and it is unclear whether the proposals intend that the individual accounts of a fully listed entity will also be required to be prepared under full EU-adopted IFRS (although paragraph 2.2(ii)(a) confirms that other publicly accountable entities will be required to prepare both their individual and consolidated accounts under EU-adopted IFRS). We presume that the requirement is intended to apply also to the individual accounts. If this is the case then, again, consistency with legislation will also be required to be considered, as the Companies Act 2006 currently permits a choice of GAAP in the individual accounts of a fully listed parent company. We note that paragraph 9.24 of the IFRS for SMEs does not require presentation of separate financial statements for a parent or its subsidiaries; this requirement must therefore continue to be driven by legislation. In our view, the law should determine what accounts should be

prepared and accounting standards should provide the tools to determine how these accounts are prepared.

- Similarly to the point raised above, and that in response to Question 6 in respect of consolidation requirements, we note that paragraph 9.25 of the IFRS for SMEs states that the financial statements of an entity without subsidiaries are not separate financial statements, and paragraphs 14.4 and 15.9 go on to state that investments in associates and joint ventures by such an entity may be accounted for at cost, under the equity method, or at fair value. In separate financial statements, paragraph 9.26 permits a choice only of cost or fair value. In our view, there is no requirement under current UK law for financial statements to be prepared by such entities which are not separate financial statements, hence the requirements of paragraphs 14.4 and 15.9 of the IFRS for SMEs are redundant in a UK context, and should be excluded from a UK version thereof to avoid confusion. We note that this is noted as an area of existing ambiguity in the ICAEW's Tech 01/09.
- We consider that guidance should be given on transition rules for entities moving from full EU-adopted IFRS to IFRS for SMEs or vice-versa (perhaps as a result of moving out of or into the definition of public accountability) other than as first-time adopters of the IFRS for SMEs. There is currently no guidance in UK GAAP on accounting for a transition from EU-adopted IFRS to UK GAAP and the IFRS for SMEs provides guidance only on first-time adoption. Note that, in our view, full retrospective application of the IFRS for SMEs should be possible by entities adopting it other than for the first time; it would be helpful for this to be specifically stated.
- Paragraph 2.2 (i)(b) of the consultation paper states that a company reporting under the Companies Act may elect to adopt EU-adopted IFRS. Under current legislation, charitable companies are not permitted to make such an election; the proposed position for charitable companies should therefore be clarified.
- The definition of public accountability in paragraph 2.3(i) refers to entities whose debt or equity instruments are "traded in a public market". There is reference in paragraph 2.3(i) to domestic or foreign stock exchanges and over-the-counter markets. However, paragraph 2.2 (i)(a) states that the consolidated accounts of publicly traded (and AIM) companies will continue to be prepared under EU-adopted IFRS and we note that the definition of "publicly traded" entities in paragraph 1.19 of the Consultation Paper refers to companies whose securities are admitted to trading on a regulated market in the EU. We consider that the final proposals should clarify that entities whose debt or equity instruments are "traded in a public market" is wider than companies whose securities are admitted to trading on a regulated market in the EU and AIM companies; it will also encompass entities whose debt or equity instruments are traded on non-EU regulated markets (for example, the PLUS-quoted market) which have not necessarily been required to apply EU-adopted IFRS previously.



KPMG LLP
Policy proposal: The future of UK GAAP
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Please contact Lynn Percy on 0207 694 8075 or Karen Faragher on 0121 232 3874 if you wish to discuss any aspect of these comments in more detail.

Yours faithfully

KPMG LLP

Appendix

Selected other differences between current UK GAAP and the IFRS for SMEs:

- Paragraph 26.16 of the IFRS for SMEs contains very little guidance on accounting for group share-based payment arrangements, stating merely that when a parent grants a share-based payment award to employees of its subsidiaries, the subsidiaries “are permitted” to account for a reasonable allocation of the group’s expense. Given that UK companies (other than those applying the FRSSE) already apply FRS 20 in full, this is likely to be an area of difference from current UK GAAP.
- Similarly, paragraph 28.38 of the IFRS for SMEs contains very little guidance on accounting for group defined benefit pension schemes. We note that the definition of group plans in paragraph 28.38 is tightly drawn, referring only to the parent entity providing benefits to employees of its subsidiaries, and requiring the parent to present consolidated financial statements in accordance with full IFRS or the IFRS for SMEs. Clarification should be given of the expected effect on UK companies currently taking advantage of the multi-employer exemption from defined benefit accounting afforded by FRS 17.
- Additional comparative information will be required compared with that required by FRS 28 - for example, comparative movements in tangible fixed assets/property, plant and equipment.
- There is no current UK GAAP equivalent of the requirement in the IFRS for SMEs to disclose significant judgements and key sources of estimation uncertainty.
- An analysis of the results of acquisitions and continuing operations (currently required by FRS 3) is not required under the IFRS for SMEs. The provisions of FRS 3, paragraph 18, in respect of provisions for future operating losses on termination of operations are not included in the IFRS for SMEs.
- Revaluation of property, plant, and equipment is not permitted under the IFRS for SMEs.
- Capitalisation of borrowing costs is not permitted under the IFRS for SMEs.
- Revaluation of investments in subsidiaries through reserves (e.g. to directors’ valuation) is not permitted under the IFRS for SMEs.
- There is no equivalent of joint arrangements that are not an entity (JANEs) as under FRS 9.
- SSAP 20 permits the use of closing rate for translation of the profit and loss account of a foreign operation and also permits the translation of monetary assets and liabilities at a contracted rate of exchange rather than at the closing exchange rate (neither of which are permitted under the IFRS for SMEs).

- Financial instrument accounting in the IFRS for SMEs includes the following differences from current UK GAAP (for those not currently in the scope of FRS 26):
 - All derivatives are recognised on the balance sheet at fair value
 - All financial assets and liabilities are carried at amortised cost or fair value through profit and loss (i.e. revaluation through reserves not permitted)
 - There are stricter requirements in respect of hedging – documentation, hedged risks, nature of hedging instrument, no early termination clause permitted
 - Net investment hedging may only be applied on consolidation under the IFRS for SMEs (SSAP 20 permits the use of the cover concept in a parent’s individual accounts). More significantly, and in contrast with EU-adopted IFRS, the IFRS for SMEs (12.18(a)) does not include loans within the definition of a foreign currency hedging instrument. Most UK companies which apply net investment hedging under SSAP 20 use foreign currency loans as the hedging instrument; although the option remains under the IFRS for SMEs to adopt IAS 39, this must then be applied to all financial instruments, which may negate any perceived benefit of applying the IFRS for SMEs.
 - Under the IFRS for SMEs, it is not possible to recognise a receivable for unpaid share capital – the debit entry is required to be recognised in equity.
 - Under the IFRS for SMEs, distributions of non-cash assets are required to be recognised at the fair value of the assets (as opposed to current UK GAAP practice of recognition at book value). Unlike full IFRS, which affords a scope exemption in this respect for common control transactions, the IFRS for SMEs does not exclude common control transactions from the scope of its equivalent requirements.