



27 January 2010

FAO Mr Peter Godsall
Accounting Standards Board
5th Floor, Aldwych house
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London
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Dear Mr Godsall

The Future of UK GAAP

Enclosed is a response to the ASB policy proposal on the Future of UK GAAP submitted on behalf of the Financial Reporting Group of the British Universities Finance Directors Group (BUFDG).

Yours sincerely

Karen Newcombe
Secretary

BUFDG Financial Reporting Group

“Policy Proposal: The Future of UK GAAP”

Consultation 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?

The Consultation document impressively aims to address the needs of entities in the UK economy holistically, covering ‘for profit’ and ‘not for profit’ entities. However, it is unfortunate that the definition of public accountability will appear counter intuitive to many of those based in public benefit entities where the concept of public accountability is all pervasive.

Using the exact meaning of ‘public accountability’ as set out in the consultation document, a public benefit entity is ‘non-publicly accountable’ and accordingly BUFDG have assumed that public benefit entities would be subject to the proposed tier 2 regime.

However, using either of the proposed definitions to drive the reporting regime, places accountability to investors, holders of equity and deposit-makers above that of stakeholders, funders and regulators of public benefit entities. This is confusing and is counter to everyday use of language. We understand that the concept of public accountability, as used by the ASB and reinforced in the consultation paper, derives from the IASB and from the Companies Act. Accordingly, we propose that the ambiguous *labels* of ‘public accountability’ and ‘non-public accountability’ be dropped and in their place the underlying proposed ASB definitions be used to back the 3-tier structure. The removal of ambiguous terms will help non-specialists understand the structure of the proposed accounting regime. This would result in an alternative *presentation* of the accounting regime matrix:

Accounting Regime	Nature of Entities	Type of Entities
Tier 1 EU adopted IFRS	Entities that issue debt or equity instruments that are traded in a public market and deposit-taking entities or entities that hold assets in a fiduciary capacity for a broad group of outsiders.	PLCs AIM listed entities Mutual financial institutions Investment banks Credit Unions
Tier 2 IFRS for SMEs	Entities that do not issue debt or equity in traded public markets or take deposits or hold assets in a fiduciary duty for a broad group of outsiders.	Non-public companies Partnerships Public benefit entities
Tier 3 FRSSE	Small entities	Turnover < £6.5m Balance Sheet <£3.26m Staff <50

To avoid confusion, the remaining part of this response uses the ASBs definition of public accountability.

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

A principled approach based on all publicly accountable entities being included in Tier 1 is strongly supported.

Introducing a size qualification, with the potential for different accounting regimes applying to different sized entities in the same sector, could have an undesirable effect in the HE sector reducing comparability and consistency of financial reporting. This would disadvantage readers of financial statements - funders, stakeholders and regulators.

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?

BUFDG have no views on this matter. However, it does raise a parallel issue in relation to wholly owned subsidiaries of public benefit entities that the consultation paper is silent upon. We propose that wholly owned subsidiaries of public benefit entities adopting some form of IFRS for SMEs (as proposed) would adopt either IFRS for SMEs or FRSSSE.

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.

BUFDG have no views on this matter.

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

BUFDG strongly support the proposal provided the characteristics of public benefit entities are reflected within Tier 2 arrangements.

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.

BUFDG strongly support the proposal. It would not be desirable to create a UK version of 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 view.

This proposal is a logical consequence of adopting a principle based approach to the accounting regime as opposed to one that is driven by size of entity and is strongly supported by BUFDG. See also our response to questions 11 and 12.

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

BUFDG strongly support the proposal.

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?

BUFDG believe that for very small entities the FRSSE should be maintained and not replaced with IFRS for SMEs.

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

BUFDG agree that there needs to be a clear and demonstrable need in justifying industry specific SORPs.

BUFDG believes that it is unlikely that SORPs, or their equivalent, could disappear given unique characteristics of certain sectors/industries and the overriding need to adhere to the ASBs Statement of Principles in terms of financial information being relevant, comparable and understandable to enable stakeholders, funders and regulators to make sense of those particular industries and sectors.

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?

It is assumed that what is meant by future UK GAAP will become IFRS for SMEs and the response of BUFDG is made with this in mind.

BUFDG strongly support the proposal to create a generic public benefit entity standard, preferably in the form of ‘IFRS for Public Benefit Entities’.

BUFDGs preferred approach is to develop a common standard for public benefit entities supplemented by specific SORPs. A generic standard will enable a common approach to be developed to deal with many shared issues across the public benefit sector (as identified in the consultation paper), while individual SORPs will deal with the elements of uniqueness in individual sectors so that financial reporting adheres to the Statement of Principles.

A generic standard will be helpful in addressing common themes and issues where either IFRS is inappropriate or silent. However, what characterises the public benefit sector is its diversity of mission, structure and funding. The ASBs ‘Statement of Principles: Interpretation for Public Benefit Entities’, characterises public benefit entities as “reporting entities whose primary objective is to provide goods or services to the general public or for social benefit and where any equity has been provided with a view to supporting that primary objective rather than with a view to providing a financial return to equity shareholders”. This characterisation can accommodate the complexity and diversity of public benefit entities across differing sectors. Accounting for charities is largely premised on fund accounting - the application and stewardship of funds for particular purposes. Higher education on the other hand operates an eclectic mix of public and private funding, charitable and non-charitable activity, and delivering public good, alongside public and private services. In contrast social landlords enjoy relatively simple recurrent funding but complex accounting in relation to asset funding. These unique distinctions will require separate SORP for public benefit entities. A single PBE accounting standard, in whatever form this takes, will be insufficient to capture the diversity of public benefit entities without substantially compromising all of the key principles of financial information – relevance, reliability, comparability and understandability.

An alternative approach that might be suggested is that a set of public benefit entity SORPs could legislate for all the public benefit entity requirements obviating the need for any separate public benefit entity standard. BUFDG does not support this view. Some of the accounting issues highlighted by the consultation paper illustrate areas where there *could* be fundamental departures from current GAAP such as business combinations, accounting for government grants and PFI schemes. Where there are fundamental differences the ‘positive assurance’ implied by a document that originates from *within* the ASB would add significant weight and status to financial reporting in the public benefit sector. If SORPs were to become the sole authority for departing from IFRS, based on the ‘negative assurance’ endorsement from the ASB, then there is a danger that the financial reporting framework governing

public benefit entities will be perceived as inferior. Equally if SORPs are to become the sole originating document justifying a departure from IFRS for SMEs then there is a greater risk that inconsistencies *between* public benefit sectors will persist. The ASB's own recent review of public benefit SORPs pointed out current inconsistencies for the accounting for government grants across current public benefit SORPs for example. An overall public benefit standard setting out the framework governing reporting by public benefit entities is essential.

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?

BUFDG strongly support the 'stand alone' approach with a standard covering all the requirements for preparing a true and fair view, using IFRS for SMEs as the starting point and in effect developing an IFRS for PBEs as its sister document, with equal status.

The advantage of an IFRS for PBEs is that a one-stop shop approach is adopted making the application and interpretation of IFRS considerably more practical to implement and more accessible to readers of financial statements, in particular trustees, funders and regulators. The two document approach would leave the users of PBE financial statements at a considerable disadvantage.

BUFDG believe that a single true and fair IFRS for PBE standard will also result in more straight-forward change regime when new IFRSs come on stream or amendments to IFRS are made. Updating a single all inclusive IFRS for PBE standard will help to ensure that changes to IFRS are implemented properly and in a considered fashion, reducing the potential for conflicts or misinterpretation that might arise if there were two documents governing how IFRS for PBEs should be applied. Conceivably, the two document approach might require changes to both documents at the same time further complicating the change process.

BUFDG believe it is essential that the burden of implementation is minimised and proportionate and that the resultant regulatory regime is transparent and fair across all sectors. A PBE standard sitting alongside IFRS for SMEs would place public benefit entities at a significant disadvantage compared to non-PBEs, leaving public benefit entities with two standard documents to manage and apply rather than one.

Perhaps more fundamentally a PBE standard that sits alongside IFRS for SMEs signals the continued marginalisation of public benefit entities, giving the appearance that accounting for public benefit entities is something of an afterthought. The ASB's consultation paper is an impressive and welcome attempt to address accounting issues generally, regardless of sector. This holistic approach should become embedded in the standard setting process with an IFRS for PBEs standard carrying the same weight and status of IFRS for SMEs.

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?

BUFDG support the proposal that a common standard address the issues identified in the consultation document, which appears to have identified all of the distinctive issues facing public benefit entities.

In BUFDG's response to the ASB's review of PBE SORPs we accepted the need to consider the different practices across PBE SORP's in relation to accounting for capital grants. The proposed PBE standard would be an appropriate vehicle to address this type of inconsistency.

In relation to issues under the 'identifying the reporting entity' heading, it would help if some attention could be given to subsidiary, associate or joint venture undertakings that take the form of companies limited by guarantee – a common legal form within higher education and the charity sector more generally. Using formal indicators of control such entities can be subject to consolidation yet the controlling parent entities will generally have no right to the economic benefits of those entities (be that

net surpluses or net assets) given that companies limited by guarantee can make no distribution other than on their wind-up.

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?

As previously set out, we believe that there will be a need for continuing guidance to supplement the new proposed public benefit standard, reflecting the local needs of the charity, housing and FE/HE sectors. If this guidance is to be accepted by users of the financial statements and by external auditors then it needs authoritative endorsement.

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?

BUFDG consists of finance practitioners who, among other things, prepare external financial reports. The cost of implementing a new set of accounting standards will be high. In April 2009 BUFDG and PricewaterhouseCoopers published a report on the potential impact of implementing full IFRS by making comparison to the current UK GAAP based HEFE SORP. This report (attached for information) identified:

- 14 areas of significant difference
- 18 areas of some difference
- 13 areas of minor or no differences

There is a fear that the change is going to result in a substantial increase in complexity and in the length of financial statements, diminishing readability, adding to the mystique and growing impenetrability of financial statements. We are also greatly concerned that the gulf between internal management reporting and external financial reporting will increase under full IFRS. It will be a challenge for the standard setters to ensure that the final form of the new proposals are firmly premised on the on the Statement of Principles Requirement for readers to understand financial statements.

The global accounting regime seems set on adopting a single and common IFRS approach. A single accounting currency will benefit readers of financial statements and BUFDG support the concept of the HE sector adopting full IFRS in an appropriate form.

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

The proposed adoption date is very ambitious. The current consultation closes in February 2010. After considering responses the ASB will then need to issue an Exposure Draft (ED) for the new literature including the bespoke IFRS for PBEs based on IFRS for SMEs (or a separate PBE standard sitting alongside IFRS for SMEs). This ED will be subject of consultation and reflection, resulting in publication of a new standard. When the ED is published work can commence on the new SORP, however, the SORP cannot be finalised until the new standard is finalised and if the ED includes difficult or contentious issues then substantial work on the SORP may not be able to commence until the final standard is published. It is a requirement that SORPs are also subject to a lengthy period of consultation. Aside from the period of 'due process' if institutions are to plan for the implementation of IFRS they will need some certainty of how they are going to apply.

Public benefit entities include over 170,000+ registered charities in England and Wales alone, ranging in size from the very small to the very large. Similarly, the further and education sector is diverse in size and scope. Allowance for planning work within these entities must be factored into the timetable.

Given the fundamental impact a change to IFRS will have it is essential that public benefit entities have a clear understanding of the new reporting regime ahead of the start of the first financial year in which it will impact. There will be a huge amount of change to absorb and plan for – IFRS for SMEs, a new Public Benefit standard and a new SORP. Alongside that considerable work on comparative data will be required. The implementation process must not be squeezed and must be taken into account in planning the overall timetable. The table below sets out an achievable but optimistic timeline based on all the stages that are required to produce a new public benefit standard and a new SORP, assuming that consultation periods conclude without the need for further major revision or any significant iteration. The timetable starts with the closing date of the current ASB consultation on the future of UK GAAP in February 2010:

Feb 2010	ASB conclude consultation on 'Future of UK GAAP'
Sep 2010	ASB publish ED with proposals on 'Future of UK GAAP'
Feb 2011	ASB ED consultation closes
Mar 2011	ASB review responses
May 2011	ASB issue ED 'Public Benefit Entity Standard'
Oct 2011	ASB ED consultation closes
Dec 2011	ASB publish new FRS for Public Benefit Entities
Jan 2012-	New SORP prepared by SORP Boards
Jun 2012	
Jul 2012	SORP Boards begin 3 month consultation period on new SORP
Oct 2012	SORP consultation period closes
Nov 2012	SORP Board consider responses then submits proposals to CAPE
Jan 2013	SORP Board consider ASB CAPE response to proposals
Mar 2013	SORP Board submit proposals to ASB
Apr 2013	Proposed new SORP endorsed by ASB with 'negative assurance'
May 2013	New SORP published (3 months before year of application)
Aug 2013	Financial year 2013/14 commences in which new IFRS, PBE standard and SORP apply

This suggests that the earliest target date for implementation is financial year commencing on 1 August 2013 (ie financial year 2013/14 in the HE and FE sectors).