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Dear Sir/Madam

CONSULTATION PAPER – THE FUTURE OF UK GAAP

Thank you for providing us with the opportunity to comment on the proposals set out in the consultation paper on the future of UK GAAP (“the proposals”).

We note that it is the Accounting Standards Board’s (the Board’s) objective to withdraw the body of literature referred to as UK GAAP and issue new literature under the IFRS framework, so as to achieve convergence to the fullest possible extent consistent with the needs of UK entities. Whilst this will have a significant impact on UK companies in many respects, we understand the benefits that will flow from providing an accounting framework more consistent with IFRS.

We broadly support the approach the Board has proposed in seeking to achieve this objective. However, as set out below, we do not agree with all of the proposals for wholly-owned subsidiaries.

a) Wholly-owned subsidiaries which are not publicly accountable

- We believe that wholly-owned subsidiaries which are not publicly accountable should be permitted to apply EU adopted IFRS, with exemptions equivalent to those currently available under UK GAAP, which are set out in paragraph 2.15 of the proposals.
- The exemptions would encourage wholly-owned subsidiaries which are not publicly accountable to apply EU adopted IFRS. They would therefore prepare their individual accounts using recognition and measurement principles consistent with the consolidated accounts into which they are incorporated. We would expect users of both the individual and consolidated accounts to find such an approach more helpful than having to unravel the recognition and measurement differences between individual and consolidated accounts which arise as a result of adopting the IFRS for SMEs for individual company accounts.
- Such an approach would also be less burdensome for preparers of accounts. Under the current proposals, companies would have to choose between applying EU adopted IFRS and therefore significantly expanding the disclosures or applying the IFRS for SMEs and maintaining records under both the IFRS for SMEs (for individual

company accounts) and EU adopted IFRS (for incorporation into the consolidated accounts).

b) Wholly-owned subsidiaries which are publicly accountable

- We do believe it is appropriate that wholly-owned subsidiaries which are publicly accountable should be providing information in accordance with EU adopted IFRS.
- However, where such companies are preparing consolidated accounts in accordance with EU adopted IFRS, we believe they should be allowed exemptions equivalent to those currently available under UK GAAP (as set out in paragraph 2.15 of the proposals) in respect of their individual company accounts. We believe the burden of including the additional disclosure in individual company accounts exceeds the benefits, when the company is already providing the information, together with that of its subsidiaries, in its consolidated accounts as is the case under the current requirements.

We believe the principles set out under (a) and (b) above should also apply to parent companies, as is currently the case under UK GAAP. In conclusion, therefore, we would propose:

1. Wholly-owned subsidiaries which are not publicly accountable should be permitted to apply EU adopted IFRS, with exemptions equivalent to those currently available under UK GAAP.
2. Wholly-owned subsidiaries which are publicly accountable should be permitted to apply EU adopted IFRS, with exemptions for their individual company accounts equivalent to those currently available under UK GAAP if they also prepare consolidated accounts which comply with EU adopted IFRS.
3. Parent companies which are publicly accountable should be permitted to apply EU adopted IFRS, with exemptions for their individual company accounts equivalent to those currently available under UK GAAP if they prepare consolidated accounts which comply with EU adopted IFRS.

We believe the above approach is broadly consistent with that currently adopted under UK GAAP for wholly-owned subsidiaries and that the broader benefits of convergence of UK GAAP with IFRS do not, of themselves, justify a change to that approach or a reduction in the exemptions currently available under UK GAAP.

We have provided answers to each of the individual questions in appendix 1.

We hope you find these comments helpful in reaching your conclusions.

Yours sincerely,

Andy Agg
Chief Accountant

APPENDIX 1 – Questions

Question 1 – Which definition of Public Accountability do you prefer: the Board’s 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?

We agree with the Board’s proposal.

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

We agree with the Board’s proposal.

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?

We agree with the Board’s proposal, subject to the points raised in our cover letter.

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.

We do not agree with all of the proposals on wholly-owned subsidiaries. We have set out in our cover letter an alternative approach which we believe achieves an appropriate balance between the needs of users and the burden on preparers.

We note the Board’s concern in paragraph 2.18 regarding the impact of reduced disclosures on compliance with the true and fair requirement. However, we are not convinced by the argument, as we assume it would also apply to the proposals for significantly reduced disclosures under the IFRS for SMEs and the FRSSSE.

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

Subject to our response to question 4 above re wholly-owned subsidiaries, we agree that the IFRS for SMEs should be used by ‘Tier 2’ entities.

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.

We agree with the Board’s proposal.

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.

We believe large non-publicly accountable entities should be permitted to adopt the IFRS for SMEs.

Questions 8 to 14 - FRSSE and public benefit entities

Whilst financial reporting by National Grid is not affected by the proposals for the FRSSE and for public benefit entities, we broadly agree with the Board’s proposals. However, we do not believe that the FRSSE should be replaced at some stage by the IFRS for SMEs. We see no significant benefit from such a change, which can justify the additional burden placed on those companies able to apply the FRSSE.

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?

National Grid has around 100 active subsidiaries, which currently prepare accounts under UK GAAP. We prepare consolidated accounts under EU adopted IFRS for the ultimate parent company (National Grid plc) and for four of our subsidiaries.

Information on an EU adopted IFRS basis is therefore readily available for all our individual companies. However, there will be an initial burden of converting the statutory accounts to the presentation format required under IFRS.

Our greatest concern is that, under the current proposals, we would have to choose between either:

- a) applying EU adopted IFRS and therefore significantly expanding the disclosures in the accounts in respect of those areas for which UK GAAP currently permits limited exemptions; or
- b) applying the IFRS for SMEs and maintaining records of the differences from EU adopted IFRS for those companies.

Therefore, as noted above, we have set out in our cover letter an alternative approach which we believe achieves an appropriate balance between the needs of users and the burden on preparers.

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

We note the proposed adoption dates coincides with HMRC’s required implementation date for XBRL. In order to avoid companies having to implement two significant changes in the same year, we believe that the adoption date for the Board’s proposals should be deferred by one year to 1 January 2013.