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Peter Godsall
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Dear Mr Godsall

The Future of UK GAAP

I attach a personal response to the consultation on the future of UK GAAP. I have had an interest in charities as an academic, accounting advisor and hands-on accountant for many years. I am currently working as the accountant for one small and one medium sized charity. It will be obvious from my answers that my major concern relates to how charities will be affected by the adoption of IFRS in the UK.

As I know the ASB is well aware, the big problem for the worldwide community of public benefit entities (PBEs) - charities and similar organisations in particular – is that IRFSs were designed for commercial organisations and not for them. The long term answer for all these organisations, including those in the UK, is for the IASB to produce a worldwide solution. This would not be so difficult to achieve as may be first thought, especially as the UK already have a working model, the Charities SORP, which could provide the basis for the equivalent of an international PBE standard. As this is a worldwide problem, I would like to encourage the ASB to approach the IASB and ask them to establish a project to develop such a standard. Though there would be costs associated with this, the global cost savings in such an approach would far outweigh these.

My response to the specific questions in the consultation is attached.

Yours sincerely

JK ASHFORD

Dr J K Ashford

Sent by email to: ukgaap@frc-asb.org.uk

Question	Response
<p>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?</p>	<p>I would worry about using 2.3 for two reasons:</p> <ol style="list-style-type: none"> 1. Because it is not the same as legal definitions there is a possibility of interpretation problems. 2. I am not clear whether it is intended for 2.3 to include charities. I suspect that 'fiduciary capacity' is meant to exclude charities but in the sense that charities hold assets in trust, they will be included as publicly accountable. I am not sure this is what was intended and if this definition is used I think that this point should be clarified. <p>Charities are publicly accountable in the normal English sense of the words, but I do not believe that most should be required to follow Tier 1 standards.</p> <p>Whatever definition is used, should it be given another term – perhaps 'market accountability'?</p>
<p>Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?</p>	<p>Where publicly accountable equates with the Board's definition and excludes charities that do not issue debt or accept deposits – yes.</p> <p>Some charities would come within the board's definition of publicly accountable and for these I would like to ensure that the requirements of any 'public benefit entity standard' (see Q 12) are followed in addition to the IFRSs.</p>
<p>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?</p>	<p>In general yes.</p> <p>However if a commercial subsidiary is owned by a charity, then the charity should not be forced to adopt IFRS in its consolidated accounts without following a 'public benefit entity standard'.</p> <p>If the subsidiary is a charity then it ought to follow the 'public benefit entity standard' and not be forced into following 'raw' IFRS. A non-charitable parent will of course need to consider whether a true and fair view would be produced by consolidating a charity subsidiary.</p>
<p>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.</p>	<p>I am not sure that doing so would have significant benefits.</p>
<p>Question 5 – Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?</p>	<p>The IFRS for SMEs is not designed for charities and any charities adopting it should also be required to follow the 'public benefit entity standard'.</p>
<p>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</p>	<p>See the answer to Q5.</p>

<p>helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.</p>	
<p>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.</p>	<p>Yes – assuming that this will enable them to apply a ‘public benefit entity standard’</p>
<p>Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?</p>	<p>No opinion. Charities would benefit from having the certainty of being able to use the Charities SORP until such time as a viable alternative is available.</p>
<p>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?</p>	<p>Yes.</p>
<p>Question 10 – Do you agree with the Board’s current views on the future role of SORPs? If not, why not?</p>	<p>Yes. However in all cases the Board should encourage the early production of IFRS interpretations for these areas.</p>
<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?</p>	<p>Yes, but I am not sure how this could be developed without also having a public benefit entity (PBE) framework – at least implicitly.</p> <p>The current PBE definition encompasses a very wide range of organisations, including many governmental organisations which to some extent have different concerns to other PBEs. I wonder if any standard needs to consider removing such organisations from the definition.</p> <p>I would hope that the Board could also impress on the IASB the need to develop an international equivalent for what must be hundreds of thousands of PBEs worldwide who will struggle to use IFRS without such a standard.</p> <p>I would prefer a single ‘one-stop-shop’ standard rather than separate standards on PBE issues or interpretations of individual standards. This will make it less likely that the PBE position will be missed or open to misinterpretation. It will also reduce the cost of implementing standards in organisations that try to keep compliance costs to a minimum.</p> <p>One advantage of the fourth (supplementary text) approach is that PBE accounting will clearly be on the agenda when considering each standard. I would hope that if the Board adopts their preferred solution this will not imply that PBE accounting will be ignored in considering standards: indeed the consideration of PBE issues can often clarify the issues faced in developing the standard.</p>

<p>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?</p>	<p>The current Charities SORP handles this by setting out both those areas where there are significant differences and those where there is no difference. I think this is a useful model for any future PBE standard and it keeps compliance costs to a minimum. It is also an approach that could be recommended to the IASB.</p>
<p>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?</p>	<p>This list is a good general summary. I would consider that virtually all the issues covered in the existing Charities SORP are of importance.</p> <p>The one specific area that I think needs better addressing is investment disclosure – particularly derivatives. Many PBEs have large pools of investment funds used to generate returns to fund their work. Few use derivative products and very few have debt commitments yet the derivative standards might be interpreted as requiring disclosures in these organisations with no obvious improvement in understanding of accounts.</p> <p>Consideration may also be needed of the usefulness of the existing cash flow reporting requirements for many PBEs.</p>
<p>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?</p>	<p>Yes this is vital to maintain high compliance.</p>
<p>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>	<p>N/A</p>
<p>Question 16 – What are your views on the proposed adoption dates?</p>	<p>No view.</p>