

**RESPONSE TO THE ACCOUNTING STANDARDS BOARD CONSULTATION PAPER  
ON THE FUTURE OF UK GAAP**

---

The Association of Accounting Technicians (AAT) is pleased to comment on the issues raised in the Accounting Standards Board consultation paper on “The Future of UK GAAP” issued in August 2009.

The AAT is a registered charity one of whose object clauses is to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

The AAT is a global organisation and enjoys a total membership in excess of 122,000 worldwide, which is made up of over 47,000 full and fellow members. The balance consists of student and affiliate members.

Of the full and fellow members there are approximately 3,000 Members in practice providing accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types. Whilst members permeate all levels and sectors of the market they are most active in the Small and Medium Sized Entity market.

**EXECUTIVE SUMMARY**

The AAT is strongly in favour of the following three tier system of:

<b>Tier</b>	<b>Accounting Regime</b>	<b>Type/Nature of Entities</b>
1	full IFRS	Publicly Accountable
2	IFRS for SMEs	Not publicly accountable and not a micro-entity
3	IFRS for SMEs (further simplified with reduced disclosures - to be developed by the IASB or ASB)	Micro-entities

The AAT is strongly against the proposal to retain the FRSSE because this would only lead to confusion and inconsistencies in financial reporting.

## **GENERAL COMMENTS**

We agree with the proposals for the current UK GAAP to be superseded by working under the IASB framework and to converge to the fullest extent possible consistent with the needs of UK entities.

We recognise the advantages of achieving the stated objectives set out in the consultation paper:-

- for reporting arrangements to be proportionate to an entity's obligations and size
- for consistency globally and ease of interpretation and accounting education
- for improved comparability and understandability
- to enable the UK and Republic of Ireland to direct resources to influencing the IASB

We are also in agreement with the proposals for a three tier regime differentiating "publicly accountable" entities and "small" entities from others.

However we consider that there are insufficient differences between the levels of disclosure requirements of the IFRS for SMEs and the FRSSE to justify the continued use of the FRSSE.

Consequently this leads us to the view that the FRSSE should be abandoned as soon as the proposals become effective so as to avoid confusion between the two Standards by compilers of financial statements which could result in poor quality compliance.

We are aware that the IFRS for SMEs was developed by the IASB with entities with at least 50 employees in mind and consequently we do not consider it appropriate for small entities with less than, say, 25 employees.

This also leads us to the view that the limits for Tier 3 entities should not follow the audit exemption limits.

One of the objectives of the proposals is stated as creating “reporting arrangements proportionate to an entity’s obligations and size” and in this respect we consider that the proposals do not go far enough to ease the reporting burdens on small entities with less than 25 employees which represent a large number of entities in the UK. Such small entities also suffer problems of accessibility to cost effective accounting skills required to comply with reporting requirements.

Feedback from our Members indicates that there are concerns that the burdens and compliance costs falling on small entities are disproportionate to their responsibilities to their stakeholders and users of their accounts.

We consider that entities with less than, say, £2 million turnover are unlikely to have in-house accounting and reporting expertise but have to buy in such expertise at relatively expensive professional fee rates.

We consider that the turnover limit for a small entity should be no more than, say, £2 million turnover or 25 employees. Entities larger than this that are not publicly accountable should have the option of applying the IFRS for SMEs but it would be appropriate for smaller entities to have available a simplified version of the IFRS for SMEs and, in particular, simplification

which results in a significant reduction in the disclosure notes in accounts. This would necessitate a Tier 3 standard being developed ideally by the IASB but if the IASB are not willing to produce a Tier 3 standard, in view of the large number of entities who would benefit from such a statement, we consider it warrants the resources of the ASB being applied to such a project for use in the UK. A simplified Tier 3 statement would significantly reduce the accounting burden for the smaller SMEs who are not likely to have in-house accounting expertise and, compared to larger entities, have to pay expensively to buy in professional services.

If the FRSSE is dropped at the same time as the IFRS for SMEs is adopted there would be only one change of reporting requirements for Tier 2 entities, whereas any transitional arrangements over a period of time would only lead to confusion and inconsistencies in reporting.

For these reasons, we do not consider it desirable to move to a two tier system in the future but a three tier system would have significant advantages.

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 Board’s proposed definition of Public Accountability as set out in paragraph 2.3 insofar as it embraces all entities which take monies from the public either by way of debt or equity, or by deposits into financial institutions is broadly acceptable. However, consideration

should be given to extending the definition to encompass other entities which should be considered publicly accountable such as public service providers, users of significant public funds (such as government grant recipients) and not for profit entities funded by public donations (whether in money or in kind). Consideration should also be given to include entities which are major employers, have a significant impact on the environment, or have a majority share of a particular market. While we recognise that public benefit entities are dealt with separately in the proposals, we believe that the definitions of “publicly accountable” should include such from the outset while also recognising that the standard which will be required for public benefit entities will need to provide suitably simplified reporting for smaller public benefit entities.

While this definition of publicly accountable entities will bring some entities currently using the FRSSE into the full Tier 1 IFRS reporting regime, it is proper that this should be the case if they are “publicly accountable”.

On the other hand, some large entities currently required to apply the full IFRS may become Tier 2 entities and eligible to apply the IFRS for SMEs. This is not unreasonable as the IFRS for SMEs as, while being a simplified and reduced version of full IFRS, much of the reduction represents full IFRSs which are not addressed in the IFRS for SMEs but which still need to be applied if relevant to a Tier 2 entity’s activities.

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

All entities that are publicly accountable should be included in Tier 1 as defined in paragraph 2.3 but if the definition is extended to include public benefit and other entities as suggested above in the response to Question 1, those entities should be subject to appropriate de minimus limits.

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?

Question 4 – Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosure? If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.

Wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS on the basis that **all** publicly accountable entities should be required to provide **full** disclosure financial statements whatever the nature of the ownership of the entity, as a consequence of changing full reporting requirements from a size basis to a publicly accountable basis. Such entities should not be permitted any reduced disclosures.

This requirement should not just apply to wholly owned subsidiaries but to all subsidiaries in order to avoid any groups using subsidiaries which would fall within the definitions of publicly accountable to avoid full reporting on the individual entities within the group.

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

Tier 2 entities should be permitted to use the IFRS for SMEs as an alternative to the full IFRS.

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.

As a matter of policy, the IFRS for SMEs should be adopted wholesale by all national bodies if the advantages of consistent and comparable reporting are to be available to entities operating on an international basis. This will avoid the need for individual national bodies to maintain and update the Standard, which could otherwise evolve over time into significant divergence between national bodies. Any desired changes to the IFRS for SMEs need to be addressed by adoption globally through the IASB. Where problems or deficiencies are identified which impact on UK entities, the ASB should seek to influence the IASB to achieve the desired amendments.

If a UK version of the IFRS for SMEs is produced, the major benefits of these proposals are lost.

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.

Large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs generally, although, if the definition of “publicly accountable” is extended as suggested in our response to Question 1 above, it is likely that the largest entities could fall within that definition if they are major employers, have a significant impact on the environment or have a majority market share. Otherwise we see no problem with large entities applying the IFRS for SMEs as Tier 2 entities.

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

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?

We consider that the FRSSE is not appropriate for Tier 3 entities for the reasons set out in the general comments above and that the definition of a Tier 3 small entity should be reconsidered. As stated in those comments the FRSSE should be replaced by the IFRS for SMEs as it is not sufficiently dissimilar to benefit Tier 3 entities and to avoid possible confusion and inconsistencies in reporting during any transitional period.

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

We agree broadly with the Board's views as the future of SORPs. Clearly where a relevant IFRS is available, the SORP should be withdrawn and where there is a clear need for a SORP, the IASB should be encouraged by the ASB to produce an IFRS. However, while the development of SORPs in the UK has resulted in guidance statements for certain sectors, their status has been considered to be that of quasi Standards, in that it would be difficult for an entity to justify deviation from any relevant SORPs. Although the ASB currently provides negative approval of SORPs we consider that, if in the UK, IFRSs require supplementary statements such as SORPs, such should be issued as subsidiary Standards to IFRSs under the full responsibility of the ASB so as to carry full mandatory status.

As stated previously, where considered appropriate, the ASB should take on the role of lobbying the IASB to introduce International Standards to replace UK SORPs.

The SORPs related to "public benefit" entities should be absorbed into the proposed Standard to be developed for such entities.

Question 11 – Do you agree with the Board's proposals 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?

We believe that it is a matter of fact that public benefit entities must invariably fall within the definition of publicly accountable entities and in broad principle should be required to report as such, the same as a commercial publicly accountable entity, subject to certain

concessions based on the size of the entity to recognise the potential costs and benefits of the reporting requirements.

It is appropriate to develop a public benefit standard as part of UK GAAP to the extent that such are not accommodated by the full IFRSs which would be adopted by publicly accountable entities generally. It is not necessarily appropriate for all not for profit entities to be required to comply with a public benefit standard in that the organisation and activities of some such entities may be no different to a commercial entity, even though not seeking a profit, and therefore able to apply the full IFRS as a Tier 1 entity. A public benefit standard should be a default application where the nature of transactions or activities result in the full IFRS being inappropriate. Consequently any such Standard should be considered supplementary to the full IFRS.

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 entity sector?

On the basis that the public benefit standard should only need to be applied in respect of specific transactions or activities unique to certain public benefit entities, it would be appropriate to provide only a supplement to the full IFRS which would comprise of additional or alternative requirements. The standard should provide for aspects where the full IFRS are either deficient or not appropriate for public benefit entities. In principle it should be regarded as an umbrella supplementary standard with certain individual subsidiary standards, such as for charities or trade associations.

We have commented previously that public benefit entities must fall within the definition of being publicly accountable and are therefore automatically Tier 1 entities for reporting purposes. However, it would be reasonable to provide reduced reporting requirements for small public benefit entities, perhaps following the principles for Tier 3 commercial entities, (i.e. total income or expenditure under £2 million or less than 25 employees) with a cash accounting alternative for micro public benefit entities (with total income or expenditure of less than, say £50,000). In particular, steps should also be taken to converge the present statutory accounting requirements for charities with any newly developed public benefit standard.

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?

The issues listed in the table in paragraph 3.15 do need to be covered in a public benefit entity standard.

In addition to those topics there is a need to address the following issues:-

- i) Accounting for commercial activities, which we consider should broadly follow IFRS reporting requirements, particularly where such are carried out through a separate legal entity, such as a subsidiary company.

- ii) Identification of the ultimate controlling body, which we suggest should be based on the facts as regards the body holding the legal responsibilities and powers to control activities. Usually it would be expected to be a legal entity with a formal constitution document setting out its control powers and responsibilities. Consequently the controlling body should be available for all activities under its control.
  
- iii) The scope of activities to be reported on, which we would expect would again emphasise the need to report on activities within the legal control of an entity. Activities outside of that control would not fall within the scope of the report, such as national charities that operate through local branches where they have no legal control over the activities of the branches, such being akin to a franchise rather than a subsidiary.

Clearly, the development of a public benefit entities standard will require attention to a great deal of detail in order to avoid any anomalies or inconsistencies with the reporting requirements for commercial publicly accountable entities, while recognising that public benefit entities need to have the minimum necessary reporting requirements if their resources are not be directed from the primary objectives of their activities.

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?

Such guidance statements will be necessary and, as stated previously, we consider that such statements should be issued as subsidiary Standards to the full Public Benefit Entities Standard under the responsibility of the ASB (if the IASB cannot be persuaded to issue relevant IFRSs).

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?

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

As a professional body, the Association of Accounting Technicians would expect to find itself needing to apply the full IFRS (as a publicly accountable entity) supplemented by the public benefit entity standard (as a not for profit body).

We would expect to be able to implement the necessary changes to our financial reporting procedures so as to implement the new requirements for our financial year commencing 1st January 2012 as proposed by the Board, as the assumptions that the proposals made in the Consultation Document are adopted by mid 2010.

Similarly, while there will inevitably be the burdens of transition, we do not anticipate that the entities in which our members work or provide services would not be able to comply by the proposed date for implementation. While some entities will face additional reporting burdens

where they are unable to continue applying the FRSSE but will need to apply the full IFRS, there will be entities who could benefit from the reduced burdens of the IFRS for SMEs as well as a significant reduction in reporting requirements for smaller entities if our suggestions for Tier 3 entities were to be adopted.

## CONCLUSION

In summary we envisage a structure as follows:-

1. Publicly accountable entities, including public benefit entities reporting under the full IFRS as Tier 1.
2. Public benefit entities reporting requirements supplemented by separate subsidiary Standards, with reduced reporting requirements based on size.
3. Small entities (possibly under £2 million turnover and 25 employees) reporting under Tier 3 requirements based on a simplified IFRS for SMEs with restricted disclosure requirements.
4. All other entities, as Tier 2, operating under the IFRS for SMEs.
5. Detailed supporting Standards for specific sectors, (currently SORPs).

As a consequence, the ASB can relinquish responsibilities for ~~FRS~~ financial reporting standards generally, but change its emphasis of efforts to providing supporting Standards where the IFRS are deficient, or in influencing the IASB to provide or amend Standards as appropriate.

These proposals to change the structure of UK reporting requirements should provide the opportunity to facilitate improvements in the quality of compliance in reporting, especially in smaller entities, and at the same time to reduce the costs of reporting for smaller entities as well as accommodating the levels of accounting skills readily available to such entities.

Finally we feel that there is a conceptual issue with the title of the IFRS for SMEs in relation to its proposed application within UK GAAP in that it is likely that “large” entities will also be able to apply the Standard if they are not publicly accountable and “small” entities would not be required to use the IFRS for SMEs. It might be helpful for public perception purposes to redesignate the Standard for UK GAAP purposes as the “Non Publicly Accountable FRS”. This will provide recognition that these are the primary UK Standards, with additional requirements for publicly accountable entities and reduced requirements for small entities.

**JANUARY 2010**