

Susan Kemp

From: Gary Moynehan [GJM@Marcamb.co.uk]
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To: UK Gaap
Subject: The Future of UK GAAP

Comments in respect of the consultation paper issued re "The future of UK GAAP"

Question 1 & 2

Public accountability would appear to be better aligned when the ASB's proposed definition is applied. Although this does negate certain "size based" exemptions, I believe it is far more appropriately aligned with the "spirit" of what public accountability is. Applying a size based ruling where all large companies (per CA) is likely to capture a number of privately held businesses. Implementing full IFRS compliance in these companies will absolutely add cost to the process, whilst shareholders, employees and suppliers are unlikely to derive equivalent additional value from full IFRS implementation. In this respect, the implementation on a pure CA definition based upon size would probably result in a net deficit in terms of overall cost versus value added if applied.

Question 3 & 4

Yes they should apply full IFRS – if the definition of public accountability is as per the ASB's proposed definition rather than the CA definition. After making this assumption it is clear that there is public interest in the company and, regardless of shareholder status, then it should be subject to the same requirements as the top-co would. The reality is that if the parent is overseas, then for the purposes of public accountability in the UK then the statements should be prepared under full IFRS. If the top-co is a UK parent, then it will be applying full IFRS anyway and the data collection/financial reporting processes will already be in place to cover these companies.

Question 5 & 6

Having reviewed the IFRS for SMEs the reductions compared to full IFRS are not significant. It remains questionable whether the perceived additional value from the IFRS accounting is actually useful to stakeholders and therefore the reduced IFRS for SMEs will still increase the amount of cost associated with preparing financial statements. You therefore have a definite increase in one off and ongoing cost to be offset against unclear benefits in terms of users of the financial statements. It would therefore seem appropriate that the ASB consider reviewing and amending the IFRS for SMEs to reduce the complexity of fair value accounting and also to reduce the extent of disclosures in the financial statements. In particular, care should be taken over any implementation (full or otherwise) of the IFRS standards on financial instruments. These are very complex and have significant scope for error in terms of calculation and reporting.

Question 7

My response to this question would be consistent with that made to questions 1 and 2. Large non-publicly accountable organisations should not be required to implement full IFRS as the increased cost would not be offset by benefits derived from users of the financial statements. Implementation of IFRS for SMEs for these companies should be an option although, consistent with my response to question 5, would be better served through implementation of an ASB amended version which reduced unnecessary disclosure requirements and appropriately addressed the inherent weaknesses of applying fair value methods in unlisted companies – directors valuations are not an improvement over the current reporting framework!

Question 8 – Yes

Question 9 – No. Regardless of how long the IFRS for SMEs is around, its current requirements will still be totally impractical for a small company and would represent an unnecessary cost which is not outweighed by the reporting benefits.

Question 15

Dependant upon final "definitions" of large publically accountable versus non-publically accountable, this group would either be subject to full IFRS or IFRS for SMEs. Due to the variety of the group's operations, based upon my previous experience in practice we would require a transition project which could cost c£100,000 through necessary support from third party professionals (as we do not have sufficient skills in house to implement the requirements), training costs for existing staff and management time in terms of designing and implementing the necessary new processes to collect IFRS information. Ongoing reporting costs would be difficult to estimate, however we would need to increase the skills of the reporting team and

put in place additional processes to address the IFRS requirements. In terms of time and FTE costs this could easily amount to upwards of £50,000 per annum. Benefits would be very limited to the relatively small number of shareholders (who are primarily all family members) and it remains questionable whether creditors or other stakeholders would find increased IFRS information more useful.

Question 16

The proposed implementation date should be inherently linked to the announcement date for confirming a final decision on how it will be implemented and what companies will be affected. It would seem unreasonable to expect an organised transition with less than 18 months formal notice of the change (ie, 18 months before 31 December 2012). Delays after this date could create problems with restating comparatives and result in a significant deterioration in first year reporting under whatever new framework applied.

Kind Regards

Gary

Gary Moynehan
Group Internal Audit Manager
Tel : +44 (0)1223 399476
Fax : +44 (0)1223 373373
GJM@marcamb.co.uk
www.marshallgroup.co.uk

Marshall of Cambridge Aerospace Ltd
Registered Office: Airport House, The Airport, Cambridge, CB5 8RX, England
Registered in England. Number 245740

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