

POLICY STATEMENT
EXPOSURE DRAFT

ACCOUNTING STANDARD-SETTING IN A
CHANGING ENVIRONMENT:

THE ROLE OF THE ACCOUNTING
STANDARDS BOARD

EXPOSURE DRAFT



ACCOUNTING
STANDARDS
BOARD

For the convenience of respondents in compiling their responses, the text of the questions in the Invitation to Comment (see pages 7 to 8) can be downloaded (in Word format) from the 'Policy Statement' page in the current projects section of the ASB Website (www.frc.org.uk/asb).

For ease of handling, we prefer comments to be sent by e-mail (in Word format), to

policystatement@frc-asb.org.uk

Comments may also be sent in hard copy form to:

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Comments should reach us by 15 September 2005.

All replies will be regarded as on the public record unless the writer asks for confidentiality. If you are sending a confidential response by e-mail, please include the word 'confidential' in the subject line of your e-mail.

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**ACCOUNTING
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PREFACE

- 1 This Exposure Draft sets out, for consultation, the Accounting Standards Board's (ASB's) views on its future role. It builds on the Discussion Paper 'UK Accounting Standards: A Strategy for Convergence with IFRS', which the ASB published in March 2004. That Discussion Paper focused on the ASB's plans for UK accounting standards. In contrast, the focus of this Exposure Draft is on the Board's future role. Whilst convergence of UK standards and IFRS remains one of the Board's central objectives, the aim of this Exposure Draft is to obtain views on the Board's overall future priorities and activities of which convergence will be a part.
- 2 The ASB is an operating Board of the Financial Reporting Council (FRC), and contributes to the FRC's aim of *promoting confidence in corporate reporting and governance by establishing and improving standards of financial accounting and corporate reporting*.
- 3 The Board's fundamental aim, as set out in its Aims and Objectives is:

To contribute to the establishment and improvement of standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial information.

This fundamental aim is not affected by recent changes in the standard-setting environment and, in the Board's view, remains appropriate.

- 4 The major activities of the ASB to achieve its fundamental aim are:
 - (a) Contributing to the development and implementation of International Financial Reporting Standards (IFRS);

- (b) Influencing European Union policy on accounting standards, including the endorsement of IFRS;
- (c) Achieving convergence of UK accounting standards* with IFRS;
- (d) Improving other aspects of UK accounting standards;
- (e) Improving communication between companies and investors, including developing and implementing standards for the OFR.

This Exposure Draft expands on these and sets out a vision for the ASB's role in the longer term.

- 5 Recently the environment in which accounting standards are developed, set and applied has changed considerably. Amongst the most important changes are:
- (a) the restructuring, in 2001, of the International Accounting Standards Committee to form what is now the International Accounting Standards Board (IASB); and
 - (b) the adoption of the EU IAS Regulation, which requires listed companies to prepare their consolidated accounts in accordance with EU-adopted IFRS[†].

* 'UK accounting standards' refers to the standards issued by the Accounting Standards Board: they are applicable in both the UK and the Republic of Ireland. Unless the context otherwise requires, references in this Exposure Draft to the UK should be taken to include the Republic of Ireland.

† Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

The implications of these developments for each of the Board's objectives are discussed in the following sections of this paper.

- 6 Whilst some changes in the Board's role are clearly appropriate, the Board's considerable past experience equips it to continue to play a major role in the new environment. For example, the Board has always played a significant role in the development of accounting thought—internationally as well as in the UK.
- 7 The UK capital market is the second largest in the world. UK financial reporting has therefore been heavily influenced by the objective of providing useful information to the capital markets, which is the direction in which financial reporting is developing internationally.
- 8 A range of companies, from global concerns to some relatively small businesses, are represented on the UK capital markets. Whilst it is clearly important that future accounting standards are appropriate for the largest entities, it is also important that they do not place disproportionate demands on smaller listed companies, many of which may have limited interest in obtaining access to capital markets outside the UK.
- 9 It is therefore important for the UK that it continues to play an influential role in the development of accounting standards, and it is well placed to do so. A significant part of the ASB's role is to enhance the effectiveness of the UK contribution to international discussions on the future direction of accounting standards.
- 10 The ASB should seek to provide a focus for UK constituents to become involved in influencing the agenda and debates about developing issues. It has always sought to lead financial reporting by building consensus through regular dialogue with its

constituents. By bringing together these views and putting them forward in an independent and credible way, the Board can provide UK constituents the opportunity to ensure that their views are fully considered.

- 11 Most UK companies are able to elect to prepare their accounts either in accordance with EU-adopted IFRS or under UK accounting standards, with the exception of listed companies in respect of their consolidated accounts. The ASB retains the authority to set UK accounting standards; in doing so, it will have regard to their suitability to the circumstances of the companies that will use them and the need to converge UK accounting standards with IFRS.

INVITATION TO COMMENT

12 The ASB welcomes comments on any aspect of the Board's proposed policy as set out in the Exposure Draft, and on its implications for the Board's operations in the future. Comments would be especially welcome on the following:

- (a) The ASB believes it should continue to provide a focus for UK constituents to ensure their views are properly considered in the international development of accounting standards. This requires the ASB to maintain regular dialogue with constituents and present UK views in an independent and credible way. Do you agree this is an important role for the ASB? What are the most effective ways of achieving this?
- (b) In contributing to the development and implementation of IFRS the ASB undertakes a number of activities. It:
 - (i) maintains continual contact with the IASB at various levels and in different fora and contributes directly to its work;
 - (ii) contributes, through EFRAG, to the exchange of views within Europe and is actively involved in EFRAG's research work; and
 - (iii) exchanges views with and works with other national standard-setters.

Do you consider that these activities are appropriate? How might the ASB undertake them better?

- (c) The Exposure Draft proposes that the Board should bring about convergence between UK standards and IFRS—that is, adopting UK accounting standards based on IFRS with no changes other than those that are essential or are justifiable. Do

you agree with that policy? Do you agree with the circumstances in which the Exposure Draft envisages that a UK standard might differ from an IFRS? Do you agree that there remains a role for sector specific Statements of Recommended Practice? How do you believe SORPs might develop?

- (d) Do you agree the proposed approach in relation to future interpretations of UK accounting standards based on IFRS is appropriate?
- (e) This Exposure Draft proposes that, in the absence of guidance from IFRIC, the UITF might promulgate non-mandatory 'UITF views'. Do you agree with this view? Would the same due process as that for UITF Abstracts be appropriate, or if not how should it be modified?

- 13 The ASB would welcome the opportunity to discuss the ideas in this Exposure Draft with groups of its constituents in the UK and Ireland during the comment period. If you wish to invite an ASB member to attend a meeting, or make a presentation, please contact Ian Mackintosh, Chairman (i.mackintosh@frc-asb.org.uk) or Andrew Lennard, Technical Director (a.lennard@frc-asb.org.uk), or alternatively telephone Erica Taylor on 020 7492 2434.
- 14 Enclosed with this Exposure Draft is the Board's Technical Plan as of 16 March 2005. This will be regularly updated and the most recent version can be found at www.frc.org.uk/asb/technical/techplan. Comments on the technical plan are welcome.

ONE – CONTRIBUTING TO THE DEVELOPMENT AND IMPLEMENTATION OF IFRS

The formation of the IASB was a welcome and far-sighted response to the demands of the increasingly global capital market for a single set of high quality accounting standards to be used throughout the world. The standards issued by the IASB (International Financial Reporting Standards (IFRSs)) are being used in a large number of countries all over the world and their influence seems very likely to increase.

The IASB has been constituted as an independent standard setter, and its arrangements are not dissimilar from those of the ASB. The IASB aims ‘to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions’.*

In the relatively short period since it was established the IASB has made considerable progress in relation to this aim, but the challenges of maintaining a set of high quality accounting standards remain, particularly in response to the continued evolution of accounting thinking and the ways in which businesses operate.

The ASB will contribute fully to the development of IFRS, engaging in dialogue with the IASB from a position of credibility; putting forward views developed taking into account the views of UK and Republic of Ireland commentators.

- 1.1 In order that IFRS continue to improve standards of financial reporting they need to be developed with input from a range of sources. In particular, national standard

* IASC Foundation Constitution.

setters should be a valuable source of accounting thought and insight for the IASB.

- 1.2 The ASB maintains continual contact with IASB at various levels and in different fora. Through this, the ASB is well informed of IASB thinking; the ASB's work can also produce ideas that may be helpful to IASB. This enables the ASB to carry out constructive dialogue with IASB from a position of credibility and understanding.
- 1.3 The direct contribution of the ASB to the development of IFRS will vary between different projects. In some, it will provide leadership; in others it will work as part of a team. On all IASB projects ASB will follow developments and set out its views whenever a contribution is appropriate.
- 1.4 To be effective in influencing the IASB the ASB needs to develop its own views on the technical merits of proposals, yet this must not occur in a vacuum. It is important that the ASB maintains its two-way dialogue with its constituents in order that its views reflect the views and concerns of its constituents. ASB will, in this way, continue to provide a natural focus for debate on accounting issues in the UK.
- 1.5 Effective working in the international partnership of standard-setters requires exchange of views not only with IASB but with all participants. The ASB will continue to maintain liaison with other national standard-setters through international fora such as the IASB's regular national standard-setters' meetings and directly to develop conceptual thinking on specific issues.
- 1.6 As one part of liaison with other standard-setters, it is important for the ASB to maintain regular dialogue with the United States Financial Accounting Standards Board, which is working closely with IASB for convergence of US standards and IFRS under the 'Norwalk agreement'.
- 1.7 The quality of accounting standards depends in large measure on the underlying principles or Framework on

which they are built. The ASB developed its Framework (the ‘Statement of Principles for Financial Reporting’) finalising it in 1999—the corresponding documents of the IASB and (in the main) of the FASB are considerably older. ASB’s work in this area will include participation in the development of an international set of principles that will provide a point of reference for all standard setters.

TWO – INFLUENCING EU POLICY ON ACCOUNTING STANDARDS, INCLUDING THE ENDORSEMENT OF IFRS

In Europe, in accordance with the EU IAS Regulation, the ultimate decisions on the adoption of the IASB's standards are taken by Member State Governments and the European Commission. Although this policy was originally thought simply to provide a mechanism for the acceptance or rejection within EU law of the IASB's standards, the partial endorsement at the end of 2004 of IAS 39 'Financial Instruments: Recognition and Measurement' demonstrated that this is not necessarily its effect in practice.

The EU's IAS Regulation provides an opportunity for enhanced co-operation between national standard setters within Europe, who have supported the creation of the European Financial Reporting Advisory Group (EFRAG). EFRAG contributes to the work of the IASB and separately provides advice to the EU Commission on the adoption of IFRS in Europe.

The ASB Chairman is an exofficio observer of EFRAG's Technical Expert Group and the ASB participates in its regular meetings with European standard setters. The ASB also provides EFRAG with its views on IASB proposals and on EFRAG's draft advice to the EU Commission.

The Accounting Regulatory Committee (ARC) of the European Commission provides an opinion on Commission proposals to adopt IFRS for use in Europe and as such is a key decision maker in the adoption process. ARC is composed of representatives from governments of EU Member States and is chaired by the Commission. The UK representatives are officials from the Department of Trade and Industry (DTI): the ASB has strong links with the DTI.

- 2.1 EFRAG provides a means for the exchange of views within Europe, and so enables points of agreement to be identified

and contributed to the international debate on IASB proposals. In the same way that the ASB provides a focus for UK constituents to become involved in accounting debate at an international level, it also provides a focus for the UK voice at a European level.

- 2.2 EFRAG is also undertaking research-type projects in order to improve understanding in Europe of fundamental financial reporting issues that IASB will be progressing and to equip itself to make an effective contribution to their development. The ASB is actively involved in this initiative to ensure that the UK plays an effective role.
- 2.3 The ASB expects that it will usually support the full adoption of IFRS in the EU and so will continue to press for their speedy adoption, unamended, by the EU. It will work closely with Government on this issue. However, this will require consideration of the merits of each case: ASB will not commit itself, as a matter of policy, to supporting the adoption of all IFRS. In practice, IASB's commitment to adopt a rigorous process of consultation and deliberation should usually lend significant credibility to the resulting standards. In considering the adoption of an IFRS, ASB would be mindful of the burdens on companies resulting from an inability to claim full compliance with IFRS.
- 2.4 ASB believes it is important that European national standard-setters, including the ASB, should continue to contribute to this work. The ASB will work directly with other European standard-setters to share views and support the development of EFRAG led projects.
- 2.5 The ASB will also contribute to the practical implementation of IFRS in Europe. As noted in Section 6 below, it will participate in any initiative to develop European guidance on EU adopted IFRS.

THREE – ACHIEVING CONVERGENCE OF UK ACCOUNTING STANDARDS WITH IFRS

In accordance with the Companies Act the ASB continues to have statutory powers to issue accounting standards for entities in the UK, other than those that are required, or choose, to prepare accounts under the EU Regulation. But the Board believes that there can be no case for maintaining differences between the principles underlying UK accounting standards and IFRS.

Consistency between UK standards and IFRS is not only important for the credibility and understandability of financial reporting, it is also important for those companies who, whilst choosing to continue to prepare their financial statements under UK standards, also wish to ensure that their financial statements are consistent with IFRS.

- 3.1 The Board will bring about convergence between UK standards and IFRS; that is adopting UK accounting standards which are standards based on IFRS with no changes other than those that are essential or are justifiable. There may be cases where the requirements of an IFRS are relaxed for all companies or for specific classes: these are discussed in Section 4 below.
- 3.2 In the ASB's view, the retention of a UK standard that differs from IFRS is not justified if the result of doing so is to impose a disproportionate burden on companies who choose to report under UK standards. This is the case even where the UK standard is of higher quality than the IFRS and its retention would maximise its influence on the future development of IFRS.

New IFRS

- 3.3 Where a new IFRS is issued it will often be straightforward to issue the new IFRS as a UK standard. For example, IFRS 20 (IFRS 2) 'Share-based payment' ensures that UK

financial reporting is in line with international standards. Immediate convergence will be more difficult where a new IFRS has implications for several standards, but the Board will aim to converge with a new IFRS as soon as possible.

- 3.4 However, there may be cases where a new IFRS conflicts with the legal environment in the UK and Republic of Ireland, which implement the requirements of the EU Accounting Directives. In such a case, the Board would have to amend the standard. It is hoped that EU and DTI work on modernising the Directives and Company Law will minimise the situations in which this will be necessary.

Older IFRS

- 3.5 As convergence with new IFRS will often be straightforward, the main challenge to the Board's convergence programme lies in the 'backlog' of older IFRS. Two possible strategies are:
- (a) issuing a set of UK accounting standards based on the full set of IFRS to be effective from the same date (a 'big bang' approach);
 - (b) a phased approach under which a number of standards on related topics are brought into effect each year, with the aim of bringing UK standards fully into line within a period of 3–4 years.
- 3.6 The Board continues to favour a phased approach. This will limit the burden of change in any one year, and enable standards that deal with related topics to be implemented at the same time. It will also enable the Board to postpone implementation in the UK of an IFRS that is likely to be superseded in the short term.
- 3.7 There may be aspects of an IFRS where the ASB believes that the IASB has not yet reached the optimal solution. Nonetheless in the interests of convergence, the ASB may propose issuing a UK accounting standard based on the

IFRS. In these circumstances, the ASB will indicate the major issues it believes should be explored in the further development of the topic.

- 3.8 The ASB will not commit itself, as a matter of policy, to converging with all IFRS. However, such cases are expected to be extremely rare.
- 3.9 Although substantive differences between an IFRS and the equivalent UK accounting standard are expected to be rare, the ASB will vary their requirements where, in the Board's view, it is justifiable to do so. Examples of possible changes include:
- (a) a later implementation date (although early adoption would generally be permitted);
 - (b) where an IFRS includes options, but the corresponding UK accounting standard prescribes only one of the approaches, the IFRS alternative might be eliminated. For example, IFRS allow investment properties to be reported at cost, whereas SSAP 19 'Investment Properties' has, for a long time required them to be reported at market value. The Board might also eliminate an option that is inappropriate to the UK legal or institutional environment.

UK accounting standards that are not based on IFRS

- 3.10 In general, there is little case for UK accounting standards being more prescriptive than IFRS. However, the ASB will not, as a matter of policy, preclude the possibility of promulgating standards that go beyond IFRS where, in its judgement, the need for this is demonstrable. For example, FRS 27 'Life Assurance' exceeds in several respects the requirements of IFRS. The issue of this standard reflects *inter alia* the widespread opinion that UK accounting for life assurance urgently required improvement; the importance of the life insurance industry to the UK economy, and the willingness of the industry to cooperate with the ASB.

- 3.11 In the rare cases where a UK standard is more prescriptive than an IFRS, it may influence the future development of an international accounting standard. It will also assist those companies preparing financial statements under IFRS, as IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ recognises recent pronouncements of standard-setting bodies as a proper basis for developing appropriate accounting policies (where otherwise consistent with IFRS and IASB’s Framework).

FOUR – IMPROVING OTHER ASPECTS OF UK ACCOUNTING STANDARDS – ENTITY SPECIFIC ISSUES

In addition to its requirements in relation to the consolidated accounts of listed companies, the EU Regulation gives Member States the option to permit or require other accounts to be drawn up in accordance with EU adopted IFRS. The UK government has (subject to certain restrictions) permitted companies to prepare other accounts either in accordance with EU adopted IFRS or under UK accounting standards. At this stage it is not possible to know how many companies will choose each of the options. It is, however, clear that amongst those using UK accounting standards will be unlisted companies (including subsidiaries of listed companies); a large number of smaller entities; and many entities in the public-benefit sector.*

- 4.1 The ASB seeks to issue accounting standards that are appropriate for the entities that have to apply them; and in particular that the burden of their requirements is proportionate to the benefits they provide. As a result, the ASB believes that in some circumstances, amendments to the text of an underlying IFRS may be required in a UK accounting standard.
- 4.2 A consequence of this is that the requirements of accounting standards will differ in limited respects for different classes of entities. However, this does not entail a set of different and conflicting requirements: the standards that will apply to every entity will be founded on the same core set of principles: only in relatively minor respects (such as disclosure) will the requirements differ.

* *The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004 No 2947).*

Large entities

- 4.3 A number of large entities will be able to elect to prepare their financial statements in accordance with UK accounting standards. For such entities it would generally be appropriate for the requirements of a UK standard to be similar to those of IFRS.

Wholly-owned subsidiaries

- 4.4 Some current UK accounting standards contain exemptions, particularly in respect of disclosure requirements, for wholly-owned subsidiaries*. In setting UK accounting standards based on IFRS the ASB will continue to consider whether exemptions should be available to such companies, taking into account the needs of users of their financial statements.

Smaller entities

- 4.5 The Board understands that, in the UK and Republic of Ireland, constituents value the Financial Reporting Standard for Smaller Entities (FRSSE) as a means of simplifying the financial reporting regime for smaller entities and providing a 'one-stop shop' tailored to their needs. One of the ways in which the FRSSE achieves this is by reducing the disclosure requirements of accounting standards. For the time being the Board intends to continue to update the FRSSE periodically for new accounting standards.
- 4.6 Consistently with present practice, an entity will be permitted to elect to prepare its accounts in accordance with the UK standards applicable to larger entities even though it is eligible to report under the FRSSE.

* *In practice, the ASB has generally allowed the exemptions to be available for subsidiaries that are at least 90% owned.*

- 4.7 The IASB is currently working on a project that aims to develop an IFRS-based regime for non-publicly accountable entities that have external users of their financial statements (NPAEs). At this stage it is uncertain what the outcome of this project might be. It is, however, to be hoped that it will provide a basis for convergence for those entities that currently report under the FRSSSE—and perhaps for larger entities as well.

Public-benefit entities

- 4.8 Public-benefit entities will, in general, continue to prepare their financial statements in accordance with UK accounting standards*. The Board continues to believe that the same principles should underlie financial reporting by both public-benefit entities and profit-oriented entities. In general, the most appropriate manner of addressing special factors and transactions affecting public-benefit entities will be through the use of Statements of Recommended Practice (see Section 5, below).
- 4.9 IFRS are, generally, not prepared with the needs of the public-benefit sector in mind. When developing UK standards based on IFRS the ASB will consider whether additional guidance or requirements is necessary or desirable for entities in that sector.

* *The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004 No 2947) prevents charities from choosing to prepare their financial statements in accordance with EU adopted IFRS, and the Government intends that the public sector will follow the ASB's convergence strategy.*

FIVE – IMPROVING OTHER ASPECTS OF UK ACCOUNTING STANDARDS – SECTOR SPECIFIC ISSUES

The ASB cannot impose additional reporting requirements on those that prepare financial statements under the EU Regulation. However, even in such cases there may be benefits to be gained from recommendations that promote consistency within a sector. Entities in a relevant sector may wish to reassure users of their financial statements by stating that they comply with a SORP.

- 5.1 The advent of the EU Regulation has no direct relevance for accounts prepared under UK accounting standards, and therefore does not require any specific changes to ASB's policy on SORPs for sectors that will continue to use such standards. However, as the ASB pursues its convergence strategy, SORPs will need to be updated to reflect the new UK standards.
- 5.2 As is discussed in Section 6, the ASB does not believe that it is appropriate for it to issue or imply formal interpretations of IFRS, and therefore of UK standards based on IFRS. Similarly the ASB will need to ensure that future SORPs, on which it gives its statement, provide guidance that is clearly supplemental to, rather than a general interpretation of, such standards. However, subject to this point, it may be appropriate for the ASB to maintain its procedures for SORPs even where many affected entities prepare their financial statements under IFRS.

SIX – IMPROVING OTHER ASPECTS OF UK ACCOUNTING STANDARDS – URGENT ISSUES

The ASB's Urgent Issues Task Force (UITF) assists the ASB with important or significant accounting issues where an accounting standard exists and unsatisfactory or conflicting interpretations are developing. The IASB has similarly established the International Financial Reporting Interpretations Committee (IFRIC) to provide interpretations of IFRS.

- 6.1 In judging the desirability of interpretations or other guidance, the ASB will have regard to the need to avoid a multiplicity of requirements, perhaps sometimes dealing only with narrowly circumscribed circumstances. An inherent feature of a principles-based framework is that there may be circumstances where different preparers quite legitimately conclude that a different accounting treatment is appropriate. However, there may be cases where the resulting variety in treatment is disconcerting, or a view is gaining unwarranted acceptance: in such circumstances the ASB should seek to promote consistency.
- 6.2 The Board believes that the IFRIC is the appropriate body to interpret IFRS, and that neither it nor the UITF should seek to issue interpretations of IFRS where the IFRIC may be willing to do so. It follows that, in such a case, neither the Board nor the UITF should interpret UK standards that are based on IFRS, since to do so would imply an interpretation of the IFRS.
- 6.3 Where the IFRIC develops an interpretation the UITF will consider issuing a similar UITF Abstract, having regard to the circumstances of companies preparing their financial statements in accordance with UK standards including the benefits of convergence. If the UITF concludes that such an Abstract is appropriate it will set out any major reservations it has with the IFRIC solution.

- 6.4 It is likely that, as around 100 countries are adopting IFRS over the next few years, there will be many requests for interpretation and clarification submitted to the IFRIC. It is possible that the IASB and IFRIC will be unable to address all of these on a timely basis, or decide that some do not warrant interpretation.
- 6.5 Where it comes to the attention of the ASB (or the UITF) that an issue of general relevance has arisen in relation to an IFRS, or a UK accounting standard based on an IFRS, it will notify the IFRIC that it believes an interpretation is desirable, outlining the issue and its preferred solution, developed within the context of IFRS. Then the:
- (i) IFRIC may develop an interpretation to address the issue; or
 - (ii) IFRIC may decide not to address the issue and publish an explanation sufficient to close the issue. The ASB would ensure that adequate publicity was given to IFRIC's decision in the UK and Republic of Ireland.
- 6.6 Where guidance from the IFRIC appears unlikely to be available in time to meet the needs of UK constituents, the UITF will consider promulgating its views, and will do so if it concludes that that would be helpful. Such 'UITF views' would not be mandatory – this reflects the consequences of the EU Regulation and of the ASB's view that the IFRIC is the most appropriate body to interpret IFRS.
- 6.7 The Board will ensure that an appropriate due process is followed in developing 'UITF views', including public consultation. In addition, other national standard-setters and EFRAG will be consulted, and full account taken of their work, with a view to reaching agreement on the approach and so minimising the risk of conflicting interpretations.
- 6.8 If a body were to be formed in Europe to develop guidance on EU adopted IFRS, the UITF would contribute to that work to the greatest extent appropriate.

- 6.9 Where it comes to the attention of the ASB that an issue has arisen in relation to UK accounting standards that have not yet been converged with IFRS, the UITF will develop its own Abstract, bearing in mind how the issue might be addressed under IFRS.
- 6.10 'UITF views' would be kept under review and revised or withdrawn as appropriate in the light of developments from the IFRIC and other bodies concerned with the interpretation of IFRS.

SEVEN – IMPROVING COMMUNICATION BETWEEN COMPANIES AND INVESTORS, INCLUDING DEVELOPING AND IMPLEMENTING STANDARDS FOR THE OFR

Financial statements are often accompanied and complemented by additional information that does not form part of the financial statements and whose objective is to communicate with the user about the reporting entity's business as a whole. Such information is important for communicating an understanding of the judgements made in managing the business and reporting on its performance.

The ASB has issued its statement on the OFR and also on 'Interim Reports' and 'Preliminary Announcements', all of which provide best practice guidance in these areas to supplement the requirements applicable to listed companies.

In accordance with the draft Companies Act 1985 (Operating and Financial Review and Directors' Report etc.) Regulations 2005 made under the Companies Act 1985 as amended by the Companies (Audit, Investigations and Community Enterprise) Act 2004, listed companies are required to prepare an OFR and the ASB is expected to be given statutory powers to issue reporting standards for it. The ASB published Reporting Exposure Draft (RED) 1 'Operating and Financial Review' in November 2004, which builds on the ASB's previous statements on the OFR and sets out the requirements for an OFR, which for some entities will be mandatory for financial years beginning on or after 1 April 2005.

- 7.1 The ASB will continue to develop reporting standards for the OFR and guidance for other areas of corporate reporting complementary to financial reporting where that appears appropriate.

- 7.2 The ASB will also closely monitor developments by IASB and other bodies in these areas and seek to align UK and international requirements wherever possible and desirable.

