



28 January 2010

Accounting Standards Board
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN
United Kingdom

By email to: ukgaap@frc-asb.org.uk

For the attention of Peter Godsall

Dear Mr Godsall

ASB Policy Proposal: The Future of UK GAAP

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the ASB's 11 August 2009 Consultation Paper – Policy Proposal: The Future of UK GAAP (the “CP”). AFME is, as you probably know, the principal UK trade association for firms active in investment banking and securities trading; it was established on 1 November 2009 as a result of the merger of LIBA (the London Investment Banking Association) and the European Branch of SIFMA (the US-based Securities Industry and Financial Markets Association), and thus represents the shared interests of a broad range of participants in the wholesale financial markets.

The majority of the larger AFME members belong to global financial groups whose UK operations typically include a range of subsidiaries that prepare financial statements under UK GAAP. We therefore welcome the opportunity to comment on this important CP.

A key concern of our members is to ensure that the exemptions to disclosure requirements for wholly-owned subsidiaries which are available under current UK GAAP will be maintained in any move to reporting under full IFRS and/or IFRS for SMEs. We do not believe users of accounts would derive any significant benefit from the provision of detailed disclosures for issues such as cash flow statements and related party transactions where the entity is a wholly-owned subsidiary, and where the information would be included in the consolidated accounts of the parent of a relevant UK subgroup. Most of our members believe these exemptions should be available even where the wholly-owned subsidiary is itself publicly accountable.

We also urge the ASB to consider aligning the timing of any implementation of the proposal with the implementation dates for significant developments in IFRS, particularly IFRS 9 Financial Instruments.

Our comments on the questions on pages 3-5 of the CP are set out below. Please note that we have not responded to Questions 11-14, as these relate only to public benefit entities.

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 reason for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

- Overall we prefer the definition proposed by the Board in paragraph 2.3 of the CP, as this is based on an assessment at the individual entity level and does not result in entities which are part of an “ineligible group” under the Companies Act 2006 being automatically publicly accountable, regardless of their own characteristics.
- Under the proposed definition, we understand that if a UK sub-group with multiple subsidiaries contains a single subsidiary that is “publicly-accountable”, only the standalone accounts of the publicly-accountable subsidiary and the consolidated accounts of the parent of the UK sub-group financial statements would need to be prepared under full IFRS. We believe this approach captures all publicly accountable entities within such a group; the alternative of using the current legal definition could result in all subsidiaries within the group being classed as “publicly accountable”, and therefore required to prepare full IFRS accounts.
- We are unclear why an investment bank or securities broker-dealer entity is expected to be “publicly accountable” under paragraph 2.3(ii), as such an institution would not necessarily be “...a deposit-taking entity and/or (hold) assets in a fiduciary capacity for a broad group of outsiders...”
- More generally, we hope that the forthcoming Exposure Draft will contain clear definitions of the phrases “deposit-taking” and “holds assets in a fiduciary capacity”.

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

We agree that all publicly accountable entities should be included in Tier 1, but please note also our related responses to Q3 and Q4 below.

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?

- Subject to our comments in response to Question 4 below, we believe IFRS as issued by the IASB would be the most suitable replacement for UK GAAP for publicly accountable wholly-owned subsidiaries. As an industry group we have consistently supported the use of IFRS as issued by the IASB and we continue to hold this view.

- If the ASB finds that the current EU legal framework gives it no option but to mandate EU adopted IFRS, we believe this would severely limit the benefits of the proposals by creating inconsistency within those global groups that are not required to apply EU adopted IFRS at the group level. It would add what is, in our view, an unnecessary and unwanted additional step to the standard-setting process. For firms not reporting under EU adopted IFRS at the group level, this additional step would increase the costs of reporting for their subsidiaries and add uncertainty over the timing and use of new standards; this would make implementation more difficult to plan and could well also increase operational risk.
- We therefore urge the ASB to continue to support the standard setting efforts of the IASB and to lobby for European adoption of IFRS in full without amendment.

Question 4 – Do you still consider that wholly-owned subsidiaries which 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.

- Most of our members consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures as long as the parent of the relevant UK sub-group applies full IFRS. Where information would be available at the group level, it seems unnecessary to replicate it for a wholly-owned subsidiary at the individual entity level.
- We would wish to see the same reduced disclosures as apply under current UK GAAP: i.e. for cash flow statements, related party disclosures, segmental reporting and financial instruments disclosures.
- We will continue to lobby the IASB for reduced disclosures for wholly-owned subsidiaries under solus accounting, and we urge the ASB also to lobby the IASB on this topic.

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

- We agree. We also agree that entities in Tier 2 should have the option to adopt full IFRS (Tier 1) if preferred.

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 you think should be made, as well as the reason for recommending these amendments.

- We believe that the disclosure relaxations proposed in our response to Q4 above for publicly accountable, wholly-owned subsidiaries should also be available for non-publicly accountable, wholly-owned subsidiaries which are required to prepare accounts under the IFRS for SMEs.

Question 7 – Do you agree with the Board’s proposal that large Non-Publicly Accountable Entities should be permitted to adopt 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 that large non-publicly accountable entities should be allowed to adopt IFRS for SMEs as they should not be required to apply full IFRS simply by virtue of their size. We believe the correct way to determine the appropriate accounting regime is on the basis of whether an entity is publicly accountable: see our response to Question 1 above.

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?

- AFME members make little or no use of the FRSSE as entities within our members’ groups would generally be excluded from the scope of this standard on the basis that they are part of an “ineligible group”. We therefore have no strong opinions on either Question 8 or Question 9.

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

- We agree with the Board’s proposal that there is a need for a “transitional role” for some SORPs in cases where current IFRS has no guidance on a topic or guidance is in the process of being developed, but that the other remaining SORPs should be withdrawn and replaced by full IFRS.

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?

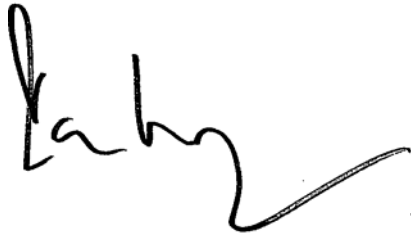
- Many of our members are still assessing the impact of the proposed changes. The impacts will differ by individual entity. Potentially significant differences that have been identified to date include accounting for financial instruments, for pension schemes, and for deferred taxation.
- The benefit of the proposed changes is the consistency of financial reporting across global businesses. Our members have not finalised their assessment of the cost of the proposed changes.
- The regulatory and taxation impacts of the proposed changes cannot be fully assessed by our members until the FSA and HMRC indicate how they will view the proposals.

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

- We believe the mandatory adoption date for any changes resulting from this consultation should be pushed back so as to coincide with the final adoption date to be agreed for IFRS 9 Financial Instruments; early adoption of the changes should however also be permitted.

I hope this is helpful. We would of course be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping underline.

Ian Harrison

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