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Responses to Policy Proposal: The future of UK GAAP

We welcome the opportunity to comment on the proposal to implement IFRS accounting SMEs.

Firstly we would like to explain our position; Lakeland Dairies Co-operative Society is obviously a Co-op, and is registered in Ireland under the Industrial and Provident Societies Acts, 1893 to 1978. The group's principal activity is the purchase of milk from our farmer-shareholders and the processing of this milk into various dairy products, which are sold worldwide. Our group accounts are prepared under Irish GAAP.

Q1 – Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)?

We are in favour with the concept of public accountability using the Board's proposal rather than the concept of size. However we have huge concerns in relation to the potential interpretation of the definition after having attended the recent public meeting in Dublin on the ASB's proposal. The ASB outlined at this presentation that there was the possibility that co-operatives would be included as being "publicly accountable". If we look at the key points of the definition – see below for analysis – we are firmly of the view that co-operatives such as ours should not fall within the definition.

Definition

Deposit-taking entities: we do not take deposits from our customers

Holds assets in a fiduciary capacity: not applicable – all our assets are owned by the co-operative itself

For a broad group of outsiders: while we have many owners, we would suggest that this is no different from a private company with many shareholders. Shares in the co-operative are not traded on any market, and the only purchases/sales arise where, under the co-operative rules, shareholders opt to sell their shares to the co-operative, under very restricted circumstances, at nominal share price only. In any event, shares in the co-operative can only be acquired by milk suppliers to the co-operative pro-rata to their milk supply contract. The level of such transactions is minimal.

It would appear that by virtue of co-ops being members of “Industrial and Provident Societies” this is enough for them to fall within the definition of “publicly accountable”, regardless of the substance of the organisation. However, we would ask the ASB to consider how the definition is applied and would strongly recommend that co-operatives are not automatically included within the definition.

Q2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? Yes, taking into account the comments in 1 above.

Q3 – no view

Q4 – 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 disclosures reductions as well as explaining the rationale for these reductions. Yes. At one level, producing accounts with full disclosure for wholly-owned subsidiaries, would be of limited value to the shareholders with considerable extra cost. On the other side where the subsidiaries produce accounts under the FRS for SME’s, these accounts will have to be reconciled (and the reconciliation audited), again with extra costs, covering system and procedure change as well as an increase in audit costs.

Q5 – Do you agree with the Board’s proposal that the IFRS for SME’s should be used by ‘Tier 2’ entities? Yes we do.

Q6 – Do you agree with the Board’s proposal that the IFRS for SME’s 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. The only amendment would be to deal with the issue raised in question 4 above

Q7 – Do you agree with the Board’s proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SME’s? Yes, also referencing our comments on question 1

Q8 – no view

Q9 – no view

Q10 – no view

Q11 – no view

Q12 – no view

Q13 – no view

Q14 – no view

Q15 – 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?

Irrespective of whether we have to adopt IFRS or IFRS for SME's this would involve changes in our accounting systems, revising procedures, training of staff and enhancing staffing expertise, additional management time (which would be better served for the co-operative and our shareholders in running the business), as well as an increase in audit fees .

If the ASB were to apply the “publicly accountable” title to co-ops solely because they are co-ops, (as we commented under question 1 above) we believe our group accounts would increase in size four fold, with the additional notes; we believe that the application of the full IFRS would therefore overwhelm our shareholders with additional information, resulting in less appreciation and understanding in the activities of their group. Accordingly, we believe applying IFRS for SMEs would be far more likely to result in our shareholders receiving meaningful, understandable information.

Q16 – What are your views on the proposed adoption dates?

Again if the ASB were to include Co-ops under the definition of publicly accountable entities (see previous comments) we believe the adoption date would be virtually impossible to have in place (keeping in mind the comparatives to the 2012 accounts would have to be prepared under full IFRS which starts on Jan 1 2011). Even if Co-ops were deemed to be categorised as “Tier 2” we feel if the final proposal is published post June 30 2010, it would be very ambitious implementation programme.

For and on behalf of Lakeland Dairies Co-operative Society Limited



Michael Ryan
Financial Controller