



Peter Godsall  
Accounting Standards Board  
5<sup>th</sup> Floor, Aldwych House  
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London  
WC2B 4HN

28 January 2010

Dear Sir,

**Consultation Paper: The Future of UK Gaap**

We write in response to the invitation to comment on the above Consultation paper.

**Background to Flowserve**

Flowserve Corporation is a world leading manufacturer and aftermarket service provider of comprehensive flow control systems. We are an established industry leader with a strong product portfolio of pumps, valves, seals, automation and aftermarket services in support of global infrastructure industries, including oil and gas, chemical, power generation and water management, as well as general industrial markets where our products add value. We currently employ approximately 15,000 employees in more than 55 countries. Flowserve Corporation is a US registered entity and is the ultimate parent company of all of the UK registered companies.

**Overview of the proposals**

Overall we broadly welcome the move towards convergence which will produce great benefits to the users of accounts. We do, however, have concerns that we as a Tier 2 entity (subsidiary of a US listed parent) will have a choice between adopting Full IFRS or IFRS for SME which have differing recognition and measurement rules. When our US parent moves to IFRS a conversion to full IFRS will create an unnecessary burden as a result of the greatly increased disclosures. A conversion to IFRS for SME's is not preferable as we will have recognition & measurement differences with our parent leaving us in a position not dissimilar to where we are today. ***Our preference is to have a "third way" in that Tier 2 subsidiaries could adopt Full IFRS but with more limited disclosures.***

Our responses to the proposals are addressed below;

**Q1: Which definition of Public Accountabilty do you prefer: the Board's proposal (paragraph 2.3) or the 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 alternatives would be.**



The preference is for Board's proposal for accountability.

The legal definitions approach would be unjust in our opinion as it could force the full burden of EU adopted IFRS onto what are subsidiaries of a U.S. listed company. It is difficult to imagine that our UK business are "publicly accountable" in spirit. Consequently, such an outcome would clearly lead to a heavy additional compliance burden for what we consider no public benefit.

We do, however, suggest that added clarity is given to the meaning of deposit taking, for example.

**Q2: Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?**

Yes, we support the Board's proposal subject to our answer to Question 1.

**Q3: Do you agree with the Board's proposals that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?**

No we wish to have the option of Full IFRS but with more limited disclosures. We would also suggest the Board consider any future IFRS guidance promulgated by the United States Securities and Exchange Commission before mandating a specific version of IFRS for UK purposes.

**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 disclosure reductions as well as explaining the rationale for these reductions.**

Yes, we generally believe that certain disclosures would not be meaningful in the context of a wholly-owned subsidiary of a large multinational corporation and would require additional local expertise at significant cost to the company to implement. Areas which we believe fall under this criteria are noted herein.

- Earnings per share information (IAS 33) – we believe that this suite of disclosures is best provided only at the parent company level in the case of a wholly-owned subsidiary
- Income Taxes (IAS 12) – specifically, reduced or elimination of disclosure around the changes in effective tax rates for the periods presented
- Provisions and Contingencies (IAS 37) – reduced or elimination of qualitative disclosures around material provisions per IAS 37, paragraph 85
- Asset Impairment (IAS 36) – there are significant qualitative disclosure requirements contained within IAS 36 which could be reduced or eliminated in the case of a wholly-owned subsidiary. The provisions of IAS 36 require disclosure of methodologies and assumptions used in testing for asset impairment as well as sensitivities relating to changes to key assumptions and variables. We believe these requirements to be onerous and of limited value for most companies which are wholly-owned subsidiaries.



- Financial risk disclosures (IFRS 7) – there are significant disclosure requirements relating to risks associated with financial instruments (paragraphs 31 through 41). While certain of the disclosures may be valuable to readers of the financial statements (depending upon the business of the reporting entity), the cost-benefit of requiring a full-suite of such disclosures should be closely examined by the Board. In our opinion, such risks should generally be disclosed in the context of the risk profile of the entire consolidated group of companies where a wholly-owned subsidiary is involved.
- Capital risk disclosures (IAS 1-2007) – The policies and objectives for managing capital risks per paragraphs 134 and 135 should only be disclosed at the parent level with respect to a consolidated group of companies. In most cases, we believe such risks to be mitigated at the subsidiary level via the backing of the parent company, thus the disclosure have limited utility.
- Judgments and estimates (IAS 1-2007) – we believe that disclosure of key judgments and estimates at the parent company level would be most appropriate in the case of a wholly-owned subsidiary.
- Related parties (IAS 24) – disclosure of compensation of key management personnel should only be provided at the parent company level in the case of a wholly-owned subsidiary
- Operating segment disclosures (IFRS 8) – we believe that this suite of disclosures is best provided only at the parent company level in the case of a wholly-owned subsidiary

**Q5: Do you agree with the Board’s proposal that the IFRS for SMEs should be used for ‘Tier 2’ entities?**

No, there should be an additional option to adopt EU adopted IFRS but with reduced disclosures, particularly for entities which are subsidiaries of non EU groups or even all wholly owned subsidiaries, see Question 7.

**Q6: 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.**

Yes for ease of clarity.

**Q7: Do you agree with the Board’s proposals 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.**

No whilst we agree there should be an option to adopt IFRS for SME what we would like is the additional option to have full EU adopted IFRS for recognition/measurement purposes but with *reduced disclosures*, either similar to those proposed for IFRS for SME’s or some other alternative, for large subsidiaries. Being a non-publicly accountable subsidiary of a US listed company and with the obvious eye on international convergence we need a “third way”. Full IFRS will give us no recognition/measurement differences with our parent on convergence but with a heavy disclosure burden (and no added value to the users of the accounts) and IFRS for SME



would drive additional re-work in reconciliation between the 2 wholly different bases of accounting.

**Q8: Do you agree with the Board that the FRSSE should remain for the foreseeable future?**

Yes, it seems to work well.

**Q9: 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?**

Yes, but consideration would need to be given to reduced disclosure so as not to be too onerous.

**Q10: Do you agree with the Board's current views on the future role of SORPs? If not, why not?**

Although not applicable to us the principle of maintaining for now appears sound.

**Q11: Do you agree with the Board's proposal to develop a public benefit standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?**

No opinion offered.

**Q12: 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 accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector.**

No opinion offered.

**Q13: Do you agree the issues listed in the above table are distinctive for the public entity sector and should therefore be covered in a public entity standard? What other issues might the proposed standard include?**

No opinion offered.

**Q14: 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?**

No opinion offered.

**Q15: If you are an entity whose basis for preparing financial statements will change under the proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as is 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?**

On the positive side, clearly any move to unify accounting standards globally is to be welcomed as long as there are minimal country specific differences. Our preference is



to be able to prepare one set accounts for both UK and US reporting purposes, the benefits of which are obvious.

As a current preparer of UK Gaap accounts there will be significant costs involved in the cutover to IFRS in 2012. Specifically, this will involve additional resource to cover the accounting, taxation, IT and accounts creation. Also an important consideration is that we will in effect be moving to IFRS well ahead of our US parent, introducing the risk of making incongruent transition and policy alternative elections. Also in this context, we would not be able to leverage our corporate scale on this country specific implementation meaning the transition costs will be higher than otherwise would be the case if the US & UK moved to IFRS simultaneously. As a final consideration, the impact and cost of a transition to IFRS on our personnel in terms of training and knowledge building will be more costly for the same reasons noted above.

**Q16: What are your views on the proposed adoption dates?**

As highlighted in Q15 we have concerns about conversion significantly earlier than that envisaged in the US. Additionally the implementation timelines of iXBRL will mean that 2 quite different sets of accounts will need to be converted within a relatively short time period.

Please feel free to contact me if anything is unclear and/or further clarification is required.

Yours faithfully

A handwritten signature in black ink, appearing to read "Julian Turner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Julian Turner

Director      Flowserve GB Limited