

29 January 2010

Peter Godsall Esq.  
Accounting Standards Board  
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Our Ref: SJG

Dear Mr Godsall

**The Future of UK GAAP**

Thank you for the invitation to comment on the Consultation Paper on the policy proposal for the future of UK GAAP. For ease of reference, I have set out my firm's response to the questions raised on the attached schedule.

Yours sincerely



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Question	Response
<p><b>Question 1</b> 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 reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?</p>	<p>We prefer the Board's proposal because public accountability is a function of the nature of the entity and not necessarily of its size.</p>
<p><b>Question 2</b> Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?</p>	<p>We agree that all publicly accountable entities should be in Tier 1.</p>
<p><b>Question 3</b> 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?</p>	<p>We agree that wholly owned subsidiaries that are publicly accountable entities should apply EU adopted IFRS.</p>
<p><b>Question 4</b> 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.</p>	<p>There is a conceptual difficulty here since a publicly accountable entity using full IFRS as adopted by EU has to apply all IFRS and IFRICs. To take out disclosure requirements in the UK would render such entities non-compliant. There are not many disclosures which would not be needed in separate financial statements.</p>
<p><b>Question 5</b> Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?</p>	<p>We agree that IFRS for SMEs should be used for Tier 2 entities.</p>
<p><b>Question 6</b> 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.</p>	<p>We concur that it would be preferable to adopt IFRS for SMEs intact. If amendments were to be made, we suggest for example:</p> <ul style="list-style-type: none"> <li>■ Exit values in provisioning should revert to IAS 37 criteria.</li> <li>■ Interest rate swaps and forward currency contracts should be classified as basic instruments.</li> </ul>
<p><b>Question 7</b> Do you agree with the Board's proposal 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.</p>	<p>Large Non-Publicly Accountable Entities should be permitted to use IFRS for SMEs. The IFRS for SMEs is sufficiently robust for such entities. There are usually a limited number of stakeholders in such entities, even if they are large, and IFRS for SMEs seems to be predicated upon IFRS being useful for a range of users of financial statements and not just for stewardship purposes.</p> <p>However, further consideration should be given to whether certain very large entities (similar to AIU scope major public interest entities but excluding charities and private sector pension schemes) should be encouraged to use EU adopted IFRS.</p>

Question	Response
<p><b>Question 8</b> Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?</p>	<p>We concur with the Board's view in paragraph 2.24 that the FRSSE should remain in force for the foreseeable future since the cost of change would not be justified.</p>
<p><b>Question 9</b> 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?</p>	<p>It is not desirable to maintain the FRSSE in the longer term. If we do keep it in the short term, it should be made known that it is intended to not maintain it after say five years and that applicable entities will then come into IFRS for SMEs.</p>
<p><b>Question 10</b> Do you agree with the Board's current views on the future role of SORPs. If not, why not?</p>	<p>SORPs are a necessary part of the future UK GAAP. However, they need to be somewhat different in the future, and named something else. Where there are sector specific requirements, they should explain how to interpret the IFRS for SMEs, perhaps to disapply certain requirements, and to add in further requirements that are not covered. This is important for UK specific entities that are based on UK law (LLPs, RSLs and charities for example). If future UK GAAP is to be varied formally in this way, we consider it important for the ASB formally to adopt the sector generated SORPs so that they become requirements for the sector rather than recommended practice.</p> <p>We do not believe that pension schemes should be categorised in any of Tiers 1, 2 or 3, but should have their own standard.</p>
<p><b>Question 11</b> Do you agree with the Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UKGAAP address public benefit entity issues?</p>	<p>We agree, having regard to our answer in Question 10. We consider that IFRS for SMEs should be formally interpreted for specific sectors, though we consider that difficult and undesirable in the case of pension schemes.</p>
<p><b>Question 12</b> 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 view 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?</p>	<p>The latter. It may be necessary to disapply provisions, to interpret provisions and to add requirements for particular sectors.</p>
<p><b>Question 13</b> Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?</p>	<p>The items listed appear appropriate to consider.</p> <p>Some sectors may well require expectations for an annual report rather than simply the financial statements. Standards for LLPs, pension schemes and unincorporated not for profit entities would need some framework for annual reports to deal with situations where this is provided by a current SORP.</p>

Question	Response
<p><b>Question 14</b> 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?</p>	<p>Yes, we consider it important that the ASB clearly agrees that the sector specific requirements also constitute future UK GAAP.</p>
<p><b>Question 15</b> 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?</p>	<p>We have significant knowledge and experience in the not for profit, pension scheme and professional practice (including LLPs) sectors as auditors and accountants. How the ASB responds to sector specific aspects of future UK GAAP will have a major impact on our clients. Of course, there will be costs to clients in terms of conversion, knowledge and familiarity through training. Our experience of present UK GAAP to IFRS conversion is that it is sometimes difficult to stop people using UK GAAP terminology and thought processes. However, one framework for all would be an advantage.</p>
<p><b>Question 16</b> What are your views on the proposed adoption dates?</p>	<p>We consider it appropriate if it is achievable by the ASB. It is likely to be challenging for the ASB to develop all the material in time, and some sector specific material may need to be phased in subsequently. If the deadline slips to 2013, the standard may have been changed by the IASB without UK stakeholders having much notice of the change. Therefore, 2012 would be better, even if the IASB changes it a year later.</p>