

Our Ref: BS/sf

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RE: Consultation Paper – Policy Proposal: The Future of UK GAAP

Dear Mr. Godsall,

We write in response to the invitation to comment on the above Consultation Paper. In Appendix 1 to this letter we set out our responses to the specific questions raised by the ASB.

We are concerned with the current position for a number of reasons, amongst which are:-

- There is an absence of cohesion in the current accounting regime with Irish/UK GAAP being a compendium of standards, some being a replication of IFRS standards, others having been subject to a convergence process with IFRS while still others effectively remain as the 'old' Irish/UK GAAP standards;
- More recently qualified accountants have been trained almost exclusively in IFRS. Irish GAAP is not familiar to them and it is costly to business to train them to cope with Irish GAAP financial statements. In contrast IFRS and IFRS for SMEs are more compatible.

The process being undertaken is of significant importance to a substantial number of Irish companies and it is essential that progress is made in a timely manner but also with clarity to avoid a proliferation of interpretative issues arising.

Full consideration should be given to making IFRS for SMEs available quickly for preparers to adopt on a voluntary basis as early as December 2010 year ends, as an alternative to current Irish/UK GAAP. We also urge the ASB to lobby the European Commission to allow the IFRS for SMEs to be used directly in similar manner to 'full IFRS'.

If you have any queries on our comments, please contact Glenn Gillard or Brendan Sheridan.

Yours faithfully,

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Appendix 1

Responses to the specific questions in the Consultation Paper on the Policy Proposal: the future of UK GAAP

Question 1 – Definition of Public Accountability

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 proposal alternative would be?

We support the Board's proposals to use the definition in paragraph 2.3 of the Paper, rather than using size-based definitions in the existing Act. A size test could lead to all large companies being classified into tier 1 as 'publicly accountable' entities. A large owner-managed business is simply not publicly accountable as defined in the IFRS for SMEs. We note that many of the larger private companies may volunteer to prepare full IFRS accounts for comparability with their peers.

We recognise that the ASB has amended the IASB's definition of public accountability, as included in the IFRS for SMEs, to include the additional words 'it is a deposit-taking entity'. Many classes of business are deposit-taking including those which take deposits from customers or clients in advance of the related funds being used to make a purchase. These include travel agents, estate agents and many others. We do not consider that such businesses should be classified as publicly accountable solely for that reason and this should be made clear.

The definition of 'public accountability' is broad and we suggest that implementation guidance should be drafted by the Board which would provide an explanation of the Board's intended interpretation of each key element of the definition – 'traded on a public market', 'deposit-taking entity', 'holds assets in a fiduciary capacity', 'broad group of outsiders' and 'primary business'.

A list of the types of entity that fall in scope could be prepared to help potential users of the IFRS for SMEs interpret the guiding principle set out in 2.3 of the Paper. A proposed list is included as Appendix 2. We suggest that such a listing is not enshrined within a standard but offered as guidance from the ASB.

Resolution of the definition of public accountability is a high priority and early communication on this matter would be welcomed. The current lack of clarity surrounding the definition means that many constituents are unclear how the ASB's plan for the future of Irish/UK GAAP may affect them.

Question 2 – Entities to be included in Tier 1

Do you agree that all entities that are publicly accountable should be included in tier 1? If not, why not?

Yes. If entities are publicly accountable then by definition (see answer to Question 1) they should be included in Tier 1.

The Funds industry in Ireland is very significant with over 10,000 funds serviced in Ireland of which more than 5,000 are domiciled in Ireland, predominantly in the form of Irish companies registered under the Irish Companies Acts. The Funds industry represents a significant proportion of Irish companies that are subject to these developments in Irish and UK GAAP. Many investment companies are listed on an exchange but there is no ability to trade on the exchange and any investment activity is only by way of subscription to or redemption of the funds. We consider it important that this is clear in the definition of what falls within the scope of being publicly accountable i.e. that entities which do not trade on an exchange (such as the investment companies referred to) are scoped out. If investment companies are considered to be publicly accountable because they hold assets in a fiduciary capacity, then it is important to avoid a "one size fits all" approach as there are many different types of entity within the category. Finally, the area of investment company accounting is currently subject to much representation from industry bodies in Ireland/UK and various other global centres seeking a major review of the application of accounting standards to such entities. This should be taken on board when moving to the next stage.

Despite the fact that the definition in 2.3 of the Paper states that bank, credit unions and mutual funds would typically be publicly accountable, it may be that some of these entities may not meet the definition if they do not hold assets for a 'broad group of outsiders'. This could be the case for a small mutual fund or credit union where membership is narrowly restricted on an on-going basis. Proportionately there are a large number of credit unions in Ireland, many of which are small and local. In view of the relatively simple nature and structure of many credit unions it is questionable whether requiring them to adopt 'full IFRS' is serving the purpose of their shareholders. Where an entity of this nature does not meet the definition of publicly accountable it is suggested that it discloses how it supports this assertion in its financial statements.

Question 3 – application of EU adopted IFRS by wholly-owned subsidiaries that are publicly accountable

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?

Yes. We agree that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS, by definition. However, we are concerned that such a requirement may give rise to unintended consequences for a group.

In common with UK company law, Statutory Instrument (S.I.) 116, European Communities (IFRS and Miscellaneous Amendments) Regulations 2005, requires that an Irish parent company and any subsidiary undertakings preparing accounts in accordance with companies legislation must prepare them using the same framework unless there are good reasons for not doing so.

Three of the possible scenarios which may possibly arise are as follows:-

- The group financial statements of a parent where there is a publicly accountable subsidiary, but where the parent entity is not publicly accountable itself;
- The entity financial statements of a parent entity that has a publicly accountable subsidiary, but is not publicly accountable itself;
- The entity financial statements of a parent entity that has a publicly accountable subsidiary and is not publicly accountable itself, but has given a guarantee or similar undertaking over some or all of the liabilities of the subsidiary.

It is recommended that the ASB addresses the question of whether in such circumstances the implication of holding a publicly accountable subsidiary has wider implications for the parent company and group accounts.

Question 4 – Should wholly-owned subsidiaries that are publicly accountable be allowed reduced disclosures?

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 disclosures.

No. We do not think that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures. The current disclosure requirements in the IFRS for SMEs are not compatible with full IFRS as the recognition and measurement requirements of the two regimes differ.

We are aware of the suggestion that non-publicly accountable subsidiaries should be allowed to use full IFRS for recognition and measurement and then the IFRS for SMEs or another set of rules for disclosures. We understand why this idea is appealing. However the mis-match point above is also relevant here.

Question 5 – Should IFRS for SMEs be used by ‘Tier 2’ entities?

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

Yes. We agree that the IFRS for SMEs should be used by ‘Tier 2’ entities.

Question 6 – Should IFRS for SMEs be adopted wholesale and not amended?

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. We agree with the Board’s proposal.

A possible amendment is that the ASB should clarify that the exemptions currently available from the preparation of group accounts based on size criteria and also in respect of intermediate parent companies will be available to IFRS for SME adopters, despite the fact that the IFRS for SMEs does not contain an equivalent exemption. With major inward investment to the Irish economy over recent years there are a significant number of Irish subsidiaries and Irish intermediate parent company structures which are a part of U.S./Japanese/Other groups where the group accounts are prepared in accordance with standards other than IFRS but where those standards are capable of being considered equivalent to the requirements of the EU 7th Directive and therefore under the current accounting framework those intermediate parent companies could be exempted from preparing consolidated accounts.

We consider that the ASB should carry out a cost benefit study before adopting IFRS for SMEs and eliminating exemptions which have resulted in many cases from due deliberation in the legislative process, other such exemptions include those in relation to cash flow statements, parent company profit and loss account, related party disclosures and others.

Secondly, under current Irish law, an entity which opts to prepare IFRS accounts is unable to switch back to preparing Companies Act accounts unless there is a 'relevant change in circumstance'. On the assumption that the IFRS for SMEs becomes Irish/UK GAAP and that the IFRS for SMEs is closer to full IFRS than current Irish/UK GAAP, the restriction on moving between accounting frameworks unless there is a 'relevant change in circumstance' should be removed so that entities which volunteered to apply full IFRS could switch from full IFRS to IFRS for SMEs.

Question 7 – Should IFRS for SMEs be used by large non-publicly accountable entities?

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.

We agree with the Board's first proposal above, seeing little value in basing public accountability on size of entity. See answer to Question 1.

Legislation could be put in place to enable regulators to designate that specific entities are required to adopt Tier 1 accounting i.e. full IFRS, possibly to apply to such public interest entities as commercial state-owned organisations in Ireland.

Question 8 – Should the FRSSE remain?

Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

Yes. The FRSSE works well for those entities within its scope and there are no cost/benefit grounds to change the regime for this category of entity.

Question 9 – Should the FRSSE be replaced in time?

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?

This question should be revisited no earlier than 2014, once the proposed regime is embedded into UK reporting and we have experience of how it is working. The needs of preparers and users of small company financial statements should also be borne in mind.

The support structure for maintaining FRSSE going forward needs to be considered and it would appear preferable if the FRSSE was amended, in due course, to be more closely aligned with the IFRS for SMEs but it may be that IFRS for SMEs in its entirety is too burdensome for application by the very much smaller companies.

The outcome of the EC's consultation on exempting 'micro' entities from the EU Accounting Directives may result in the number of entities within scope of the FRSSE being reduced drastically, raising the question of whether a third tier would be necessary. In the meantime, pressing for deregulation of small companies at the EU level should be a priority.

Question 10 – The future role of SORPs

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

We believe that SORPs have a transitional role but no long-term future. We agree that the future of some of the SORPs e.g. insurance and oil and gas are dependent on the progress of IASB initiatives. Once Standards are issued in these areas there should be no need for a SORP. Where additional guidance is deemed necessary for an issue specific to Irish and UK reporters, it should continue to be the responsibility of the specific industry bodies to develop and maintain such guidance.

Question 11 – Should a public benefit entity standard be developed?

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) UK GAAP address public benefit issues?

No. We do not agree that the ASB should develop a separate framework for public benefit entities. At present, many public benefit entities are also Irish incorporated limited companies and are required to prepare accounts under Irish/UK GAAP and Irish company law. Applying a different framework for public benefit entities that are not companies would mean there is not a level playing field. Removing public benefit entities from the scope of company law could require complex legislation.

We believe that IFRS for SMEs is not sufficiently different from Irish/UK GAAP that any of the accounting answers it produces would lead to counterintuitive answers for public benefit entities.

We accept that the existing not-for-profit SORPs provide some useful consistency of application within their sectors, but we note that there are currently significant differences between some of them. We recommend instead that the relevant regulators and representative bodies work together to produce guidance to assist their sectors in applying the IFRS for SMEs.

Question 12 – What should a public benefit entity standard cover?

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?

See Question 11.

Question 13 – What issues should be included in a public benefit entity standard?

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?

As above, we do not believe a public benefit standard is required. There are existing SORPs in the three areas mentioned in the Paper although it is recognised that these SORPs conflict in places. It is suggested that the bodies which produce the sector specific SORPs revisit the SORPs in light of the IFRS for SMEs and work to reduce.

Question 14 – Consistency of UK GAAP and a public benefit entity standard

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?

This should not be needed as the requirements should be based on the IFRS for SMEs.

Question 15 – Costs vs benefits

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 and creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

To help entities transition smoothly, at minimal cost, a stable regime is needed. The ASB should consider more widely all reporting requirements facing entities to reduce the burden on reporters. The plans under development for introduction of XBRL by relevant authorities need to be borne in mind.

Question 16 – Views on proposed adoption date

What are your views on the proposed adoption dates?

Under the ASB's current proposals, the timeline of 2012 is ambitious if the final rules are not to be issued until mid 2011. A stable platform is required in the lead up to transition and therefore the ASB may wish to consider deferring mandatory application until accounting periods beginning on or after 1 January 2013.

We note comments made by the IASB project team in respect of areas for potential change in the IFRS for SMEs (notably income taxes and financial instruments). The ASB may wish to consider the major milestones in the IASB projected implementation programme, e.g. IFRS 9 on financial instruments is scheduled for mandatory implementation in 2013, before making final decisions on implementation dates.

We believe that preparers should be allowed to adopt IFRS for SMEs immediately on a voluntary basis as an alternative to current Irish GAAP. Due process may call for an Exposure Draft but this could be a few pages, inviting comments on making the IFRS for SMEs available for use early in 2010. The ASB could then make the IFRS for SMEs available immediately, say no later than 30 June 2010 and allow entities to adopt the regime voluntarily from December 2010 year ends. This has the benefit of allowing preparers which would be in scope of the IFRS for SMEs under the proposed regime to transition at a time of their choosing.

Appendix 2

Scope – some initial ideas

Within the scope of publicly accountable

Entities with debt or equity securities traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets [list markets]).

Banks (retail and investment)

Insurance companies (excluding captive insurers)

e-money issuers

Friendly societies

Building societies

Credit unions

MiFID investment firms

UCITS management companies and UCITS funds (where both listed and traded)

Outwith the scope of publicly accountable

Travel agents

Estate agents

Solicitors

Captive insurers

Insurance brokers

Mortgage and insurance intermediaries

Non-MiFID investment firms (broadly those that do not hold assets on behalf of the public)

Sellers that receive payment in advance of delivery of goods or services

Non-UCITS investment funds