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Dear Sirs,

POLICY PROPOSAL: THE FUTURE OF UK GAAP

Thank you for the opportunity to comment on the above Consultation Paper. It is regrettable that you did not ask for submissions ranking the available standards packages for various sizes and types of entity. We suspect that if you had done so, the responses would have forced a major rethink on ASB's part.

Overview

Our ranking of the available regimes for various categories of entity are as follows (with 1 being our preference and 4 being what we view as the worst regime):

Category	Full UK standards	Full IFRS	FRSSE	IFRS for SMEs
Publicly traded	2	1	3	4
Large	1	2	3	4
Medium	1	3	2	4
Small	2	4	1	3

The main reason that the IASB packages are ranked so lowly, is that international comparability is unimportant for entities that are outside the publicly traded sector. ASB seems not to have noticed, that in the non-publicly traded sector, the UK demand from corporates for copy cat international accounting has slumped in the last 5 years. The UK has, in that period, gained first hand experience of the needless complexity of the full IFRS rulebook and the decline in its quality, as since Nordwalk, IASB has in practice bowed down to a US GAAP rules based approach with disclosure overkill.

We set out in Appendix 1 our answers to the specific questions on which you invited comment. Should you require any clarification of the answers please contact Stuart Hastie. Our primary interest is as users of accounts and as an accountancy firm specialising in financial reporting issues.

Yours faithfully

Disclosure Solutions Limited

APPENDIX 1

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)?

A1) The current legal definitions.

(i) Please state the reasons for your preference.

We consider it inappropriate for ASB to permit the dumbed down profit measurement accounting and reduced disclosures of the IFRS for SMEs for entities that are large in the sense of exceeding 2 of the 3 limits:
Annual turnover £25.9million
Assets £12.9 million
Average number of employees 250

We believe that these are the 7,000 largest unquoted companies in the UK. It is no surprise that the IFRS for SMEs is not fit for large entities, as it was not designed for them (as is perfectly obvious from the small and medium in the title of the document). We believe that such large entities have adequate resources to comply with full profit measurement and full disclosure standards (which is what they have had to do to date under UK GAAP as previously promulgated by ASB). There has been no demand from users of accounts and very little demand from preparers of such accounts either for simplified profit measurement or disclosure reductions against full UK standards. It would be a very backward step for UK accounting, if ASB were to permit such economically significant large entities to opt out of measuring their profits properly.

(ii) If you do not agree with either definition, please explain why not and what your proposed alternative would be?

We would prefer public accountability to be defined as traded in a public market or large on at least two of the turnover, assets and employees numbers above.

We do not consider it necessary for ASB to impose full IFRS on financial businesses just because of the nature of their business, regardless of their turnover, assets and employee numbers. Such businesses as banks, credit unions, security broker/dealer, mutual funds and investment banks need monitoring carefully by regulators on a lot more uptodate data than their annual accounts. The objective should be protection of the public by in depth scrutiny, but they should not be offered reduced disclosure. It should be up to the relevant regulators to specify the accounting standards regimes that are required in each case rather than ASB. As there is no decent IFRS insurance standard we would prefer UK GAAP to be kept, including the SORP for at least that sector.

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1?
A2) No.

If not, why not?
They should be allowed to continue with UK GAAP unless they are publicly traded, as it is a superior standards regime.

For the last 5 years, virtually all UK companies have had a free choice and hardly any have adopted full IFRS. This is despite the UK government doing its best to make the choice tax neutral and IASB removing the main distributable profits disincentive to switch to full IFRS. Having carefully compared and contrasted full IFRS and full United Kingdom Standards *"full UK Standards"* the overwhelming majority of UK corporates have come to the conclusion that full IFRS is the inferior package overall. The market has voted with its feet to avoid full IFRS and to keep using UK standards, so it is perverse of ASB to still be recommending the abolition of UK standards. It is the laziness of the bureaucrats at ASB, who cannot be bothered keeping UK standards uptodate, rather than the needs of preparers and users of UK accounts, that is driving the abolition of UK standards.

Indeed, even where groups have been forced to prepare their consolidated accounts on full IFRS, they have preferred overwhelmingly to keep the statutory accounts of their UK group companies on full UK Standards. Instead of switching to full IFRS, those companies have opted for the massive recurring cost of consolidation adjustments between the two regimes. Such actions speak much louder than words about the costs and low quality of full IFRS.

Stand alone UK listed or AIM companies
This is the only category of entity for which we are in favour of extending mandatory full IFRS. In the interest of investors, we believe it is appropriate that all listed and AIM accounts are on the same profit measurement system to enable comparisons to be made easily. Given that the EU and London Stock Exchange respectively forced full IFRS for the consolidated accounts of listed and AIM entities, we believe it is appropriate that stand alone listed or AIM entities are forced onto full IFRS. We support ASB extending full IFRS to such entities, as the relevant regulators have failed the investing public.

Question 3 – Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS?
A3) No.
If not, why not?
They should be allowed to continue with UK GAAP unless they are publicly traded, as it is a superior standards regime.

Question 4 – Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures?

A4) No- not even if the parent is willing to guarantee the debts of all it subsidiaries.

We are aware that there is lobbying from major firms for ASB to create yet another regime (or tier) consisting of full IFRS profit measurement, but with reduced disclosures. The existence of that lobby would suggest that such corporates can live with full IFRS profit measurement, which they currently avoid at the cost of messy consolidation adjustments, because they are determined to resist full IFRS disclosures. We have to ask the question, why is full IFRS disclosure being resisted in the UK statutory accounts of such UK taxable entities? We are mindful that almost all the numbers have to be collected anyway for the IFRS consolidation and that there are vast resources available to listed groups.

Our conclusion is that the lobby is driven by not wanting the UK tax authorities and providers of finance to see the extra disclosures. The public interest is not served by ASB caving in to that lobby.

To the extent that there is a case for IFRS disclosure exemptions for subsidiaries, it will largely be a worldwide case and the appropriate channel for such lobbying is to IASB, not to the ASB. The temptation for IASB to please analysts with overkill disclosures will only ever be resisted if big firms and their clients apply pressure to IASB directly, standard by standard, rather than hoping for a general UK subsidiary carve out.

If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.
N/A

Question 5 – Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?
A5) No.

We do not agree with offering wholesale disclosure reductions or dumbed down accounting to enterprises that are above the small thresholds. Hence we would prefer Tier 2 to remain as full UK standards. In the past the entities concerned have shown they are capable of complying with full UK disclosures and UK profit measurement rules and they have rejected the overkill disclosures of full IFRS and its profit measurement rules. ASB being too lazy to keep UK standards uptodate is not a good reason for ditching those standards.

If you insist on dropping full UK standards, our preference would be to allow the 30,000 medium-sized entities to use the FRSSE rather than the IFRS for SMEs, so they measure profits properly.

When ASB consulted in 2004 on IFRS convergence, the IASB was planning to have the same measurement rules in the IFRS for SMEs as in full IFRS. The expectation was that the IFRS for SMEs would be merely a lighter disclosure regime than full IFRS (like the FRSSE is in UK GAAP). Hence, the IFRS for SMEs was expected to be a document fit for use in the UK, as it was not going to have lower standard profit measurement rules than we are used to in the UK. However, now we see the final IFRS for SMEs we find it is a significantly dumbed down profit measurement regime compared to existing UK GAAP.

We consider it a retrograde step for medium or large UK entities and users of their accounts, that ASB is proposing a choice of two packages: dumbed down profit measurement on IFRS for SMEs or full IFRS (which UK entities do not want: as they have rejected that option in the past).

One of the benefits of preparing accounts under the existing UK GAAP is that UK entities are generally able to spend extra money and opt for more sophisticated accounting, issue by issue without breaching standards. Where a topic is important enough to the entity, its directors can choose more sophisticated accounting for that topic, without having the overkill of full IFRS disclosures and its complete profit measurement regime (which was designed for multi-national listed companies).

For non-FRSSE entities it is a case of ASB proposing to withdraw the a la carte menu and replace it with a choice from two set meals, a gourmet one that few can afford (full IFRS) or Spam, Mash and Eggs (IFRS for SMEs). It also seems that the ASB plan is in due course, to withdraw the FRSSE, so small entities will end up with the same unappetising choice of set menus.

We object to entities that do not want to breach standards, being forced onto full IFRS if they want to do one or more of the following:
-capitalise development costs;
-revalue tangible assets such as land and operational buildings; and
-capitalise interest

In each case, following the IFRS for SMEs presents profit figures that are less realistic and simultaneously deprives the users of accounts of valuable information. The treatments banned under the IFRS for SMEs contain assertions by the preparers, that the higher balance sheet values of the assets are recoverable (and at least in the case of large or medium sized entities those assertions are backed up by the audit opinion).

Enterprises that are currently not very large but have lots of development expenditure are very important to the future of the UK economy and will be held back by probably being forced into accounting that pretends their investment expenditure is not an asset.

In the UK, we already have experience of a reduced disclosure regime (the FRSSE) which in one case contains an attempt to insist on a simplified profit measurement rule that is cheap to apply. We refer to goodwill amortisation, which is mandatory under the FRSSE, but a policy that is banned in full IFRS and optional under large UK GAAP. If an accounting treatment such as annual impairment testing is more expensive to apply, but an entity is willing to incur those costs, there seems to be no good reason to deprive users of the benefits of the improved information that is provided by the more sophisticated accounting policy. The result in the UK has been a refusal to amortise goodwill by many small entities and disclosure of the departure from the FRSSE. Where there is an audit, it is sometimes accompanied by an except for audit opinion.

To do it on one topic, as with the FRSSE is unfortunate, to do it on that and the other three topics above, as ASB proposes with the IFRS for SMEs will inevitably lead to the IFRS for SMEs being brought into disrepute by frequent breach of its profit measurement rules.

Question 6 – Do you agree with the Board’s proposal that the IFRS for SMEs should be adopted wholesale and not amended?
A6) No.

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.

We would favour amending it, to align it more closely with existing UK standards as it will then result in better financial information, give companies flexibility and avoid some costly transition costs.

We favour amendments in the following areas:

1. Flexibility to permit more sophisticated accounting
2. Investment properties
3. Cash flow statements
4. Group accounts

1. Flexibility to permit more sophisticated accounting
For the reasons given above, the IFRS for SMEs should be amended to permit but not require:
-capitalisation of development costs;
-revaluation of tangible assets such as land and operational buildings; and
-capitalisation of interest

2. Investment properties
Profit figures are distorted under IFRS (full or for SMEs) by the inclusion of revaluation gains in profit. The traditional UK approach of keeping unrealised gains out of the profit and loss account should be achieved by amending the IFRS for SMEs.
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ASB should remove from the IFRS for SMEs the option of depreciated cost for investment properties via the simple mechanism of claiming it is too costly to get a valuation. Quite rightly, neither the FRSSE nor SSAP 19 permit it. Back in the 1970's the UK realised that valuation was important and SSAP 19 was born. Size exemption from valuations was considered and rejected when the FRSSE was created in the UK in 1997. Why should ASB now offer it via the back door of the IFRS for SMEs? ASB is proposing another extension of poor accounting to more UK entities.

3. Cash flow statements
We would like costs to be reduced by amending it to eliminate the requirement for cash flow statements for small entities applying the IFRS for SMEs.

On similar cost grounds we would like to see an exemption for wholly owned subsidiaries. The benefits of IFRS cash flow statements are already low given their inferior format to FRS 1, and they are particularly useless where the numbers are dwarfed by intra group transactions.

4. Group accounts
UK law requires group accounts for most medium and large parent entities. It is important that they should be prepared under high quality consolidation rules. We consider that IFRS does not produce sensible group accounts (either on full IFRS or on what the IFRS for SMEs is likely to become by the time you plan to implement it). We predicted in our 2006 submission to ASB that UK GAAP would need to be preserved for group accounts, as IFRS based group accounts were likely to be low quality.

Amongst the objectionable aspects of IFRS based group accounts are:
-the instant expensing of acquisition costs (that should instead be part of goodwill)
-the day of acquisition instant profit of all negative goodwill (that should instead be spread forward)
-the ability under the IFRS for SMEs to opt out of equity accounting for associates and joint ventures
-the ban on merger accounting (under both versions of IFRS)
-the full IFRS ban on amortising goodwill.

The numbers that result from such IFRS consolidations can be virtually meaningless. We see no reason for the UK to now adopt them when it has had better accounting treatments, virtually throughout the ASB's existence.

The FRSSE currently relies on cross references to full UK standards for consolidation techniques if group accounts are prepared. That will cease to work as soon as full UK standards are withdrawn. Hence the reality is that small entities that choose to prepare group accounts will be forced off the FRSSE onto IFRS, without even waiting for the FRSSE to be withdrawn.

We are also concerned that small groups could be eventually forced to bear disproportionate costs by being forced into preparing consolidated 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 the IFRS for SMEs?
A7) Certainly not.

Or do you agree that large entities should be required to use EU adopted IFRS?
No.

Please give reasons for your view.
Large entities should be on existing full UK GAAP, which overall we consider gives more useful information on performance as its profit measurement is superior to full IFRS and its disclosures are generally appropriate without being the overkill that full IFRS is.

However, if ASB is foolish enough to abolish UK standards and is only going to consider either full IFRS or the IFRS for SMEs, we would prefer for large entities that it was full IFRS. The more users there are on full IFRS, the more they will pressure IASB to produce better standards and the less they will look like a book of rules and disclosures mindlessly copied from US GAAP.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

A8) Yes.

The longer you keep any form of UK GAAP going, the more chance there is of replacing the current ASB members with people that are more representative of UK accounting opinion. The current ASB is locked into the mindset in practice, that when writing standards, copying IASB (international comparability) is always more important than departing from them, even when IASB has obviously got it wrong. The majority of members of the current ASB would jump off a cliff edge if that was what IASB wrote in its standards. International comparability should be largely irrelevant in setting small entity accounting standards.

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?

A9) No.
We are sure that, if as proposed, UK small entities are for a period given a choice of switching to the IFRS for SMEs or continuing with the FRSSE they will overwhelmingly continue to adopt the FRSSE. This is mainly because cash flow statements are expensive and so are consolidations.

Question 10 – Do you agree with the Board's current views on the future role of SORPs.
A10) Yes.

If not, why not?

Question 11 – 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?
A11) No- because the resources should be redirected to improving UK private sector GAAP by updating UK standards rather than mindlessly copying IASB for the private sector.

If not, how should (converged) UK GAAP address public benefit entity issues?
By a limited series of UITF Abstracts on the relevant topics. For example, by applying definitions of debt and specifying that the public sector is borrowing when it signs up to PFI and PPP projects.

Question 12 – 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?
A12) N/A.

Question 13 – 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?
A13) No. Most of them are trivial and have been adequately dealt with in the past, without needing to invent a conceptual framework or overarching standard.

What other issues might the proposed standard include?
None-we do not wish to see ASB wasting scarce resources by inventing a public sector job for itself as it searches for a new role, after volunteering to effectively hand over UK private sector standard setting to the IASB.

Question 14 – 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?
A14) Yes..

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.

We estimate that the cost of imposing a cash flow statement on a non-large UK entity is of the order of £500. With over 1 million UK small companies that is eventually going to be a cost of well over £500m per annum for the UK. ASB once realised the costs exceeded the benefits and that is why it gave a small company cash flow statement exemption. We do not think international comparability is a price worth paying for that sort of cost burden.

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?

The only positive will be making standalone Aim or Listed companies use the same standards as ones who do consolidated accounts.

The negatives include the loss of information as the IFRS for SMEs distorts profits:
a) including either investment property revaluation gains or a bogus depreciation charge;
b) by expensing as incurred developments costs, interest, and day 1 acquisition costs;
c) introduces mandatory amortisation costs for goodwill and intangible assets;
d) accelerates day 1 of acquisition negative goodwill income;
e) gives no clue as to what is the group's share of the profits of associates and joint ventures.

It will also deprive us of uptodate data on the value of investment properties and less often for operating properties.

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

1. Accelerate the switch to full IFRS for stand alone UK listed or AIM companies
In the interest of investors, we believe it is appropriate that all listed and AIM accounts are on the same profit measurement system to enable comparisons to be made easily. Given that the EU and London Stock Exchange respectively forced full IFRS for the consolidated accounts of listed and AIM entities, we believe it is appropriate that stand alone listed or AIM entities are forced onto full IFRS. Almost all such entities that do not produce consolidated accounts are investment trusts. They

are generally part of stables, who already have accounting systems that cope with administering full IFRS (for the group accounts of the other trusts that have dealing subsidiaries). Hence most will be ready to switch to IFRS with hardly any delay or cost. We support ASB extending full IFRS to such entities as the relevant other regulators have failed the investing public. We asked for this to be done urgently back in 2006 when responding to your convergence strategy consultation. As this is a stand alone topic, totally independent of what happens to the IFRS for SMEs, please at least accelerate that part of the timetable by about two years to accounting periods that begin on or after 23 December 2009.

2. Delay abolition of the FRSSE

We believe that the correct time for an ASB debate on the future UK standards regime for small entities is after the EU has resolved its legal framework for the accounts of micro-entities. We note that around 80% of entities that are within the existing scope of the FRSSE are micro-entities as defined by the EU.

3. Expanding the FRSSE to medium-sized entities

As the FRSSE is in substance just a reduced disclosure sub-set of UK Standards and Abstracts we support its extension to include medium-sized entities. However, entities that produce group accounts (voluntarily if under the medium-size limits) should not be allowed to use the FRSSE.