

Peter Godsall
Accounting Standards Board
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WC2B 4HN

30 January 2010

Dear Peter

British Red Cross' response to ASB consultation – “The Future of UK GAAP”

We welcome the opportunity to comment on the ASB's policy proposal on the future of UK GAAP and would also like to express our approval of the prominence the consultation gave to financial reporting for public benefit entities.

Our responses have considered the impact of the proposals on the British Red Cross as well as the charity sector as whole. We consider our funders to be the primary users of our accounts and this has been the overriding consideration while responding to the consultation. We have only answered those questions which we believe will have a significant impact on charities.

We are supportive of a separate public benefit standard and it is difficult to fully assess what impact the move to IFRS (albeit IFRS for SMEs) will have on the British Red Cross or the sector as a whole until a public benefit standard is available. We think it is unlikely that a 'change date' of 1 January 2012 will allow sufficient time for this standard to be prepared, put out to consultation, finalised and implemented.

Our responses to each of the questions in the consultation are set out in enclosed appendix. Please call me on 0141 847 5940 if you would like to discuss any of our responses.

Yours faithfully

Andy Gibb
Financial accountant
Direct Line: 0141 847 5940



Protective emblems used by
the International Red Cross
and Red Crescent Movement

The British Red Cross Society
Incorporated by Royal Charter 1908
Registered charity numbers:
England and Wales: 220949
Scotland: SC037738



APPENDIX – RESPONSES

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)? 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?

No comment.

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

No comment.

Question 3 – 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?

No comment.

Question 4 – 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.

No comment.

Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?

We support the principle that profit seeking entities should move to IFRS or IFRS for SMEs. If non-public accountable companies are to adopt IFRS for SMEs then we believe that the charity sector should also adopt IFRS for SMEs (albeit as reflected in a public benefit standard) to prevent a deterioration in the level of understanding of charity accounts.

Charities and companies differ in nature and, quite rightly, so do their accounts but we believe that these differences should be kept to a minimum as a high level of difference will have a negative impact on the understanding of our accounts by our users. Differences between company and charity accounts should be limited to differences arising due to nature of organisation and not from different accounting frameworks.

We understand that full IFRS stretches to an incredible 3,000 pages and therefore this is probably unnecessarily complex for the majority of companies let alone charities. At 300 pages, the IFRS for SMEs appears to be a pragmatic approach to the wide-spread adoption of international standards by non-publicly accountable entities.



Question 6 – 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, as stated in our response to question 11 we would like the ASB to develop a ‘one-stop shop’ public benefit standard. Differences between charities and companies’ reporting requirements will be set out in this standard and therefore we believe the IFRS for SMEs should be adopted whole-sale and not amended.

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? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

Yes, we agree that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs.

The comparability of accounts is important in the charity sector. Some charities, including the British Red Cross, could be classified as large. If these large charities were required to adopt full IFRS then this would create differences between large and other charities’ accounts. This could cause further confusion for the users of our accounts. Additionally, adoption of full IFRS could place an unfair and unjustified administrative burden on large charities.

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

To ensure consistency, we would like to see a two-tier approach (public accountable and other) in the long term but appreciate the costs of adoption of IFRS for SMEs by the change date by entities currently applying FRSSE may not be justified.

In our response to Question 16, we have stated that the change date of 1 January 2012 is too soon for public benefit entities and believe that public benefit entities could adopt IFRS for SMEs 2 to 3 years after other tier 2 entities. A similar lag time could be applied to those entities currently applying the FRSSE.

We believe there should be consistency between charity accounts and we do not believe that the FRSSE should be an option for smaller charities if a separate public benefit entity standard were to be issued.

Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not?

In our response to question 11, we state that we’d like the public benefit standard to replicate the ‘one-stop shop’ currently offered by the charity SORP as much as possible. Therefore we don’t see the continued need for SORPs. We also believe that reducing the number of SORPs would lead to greater overall consistency in UK financial reporting.

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? If not, how should (converged) UK GAAP address public benefit entity issues?

Yes, there is a need for separate regulation to ensure that the accounts of public benefit entities meet the requirements of the user of accounts and we believe that a ASB developed public benefit entity standard would be the best way of addressing this.

If we accept that UK financial reporting as a whole is moving to an IFRS basis then the other option for charity sector reporting would be to prepare an IFRS-based SORP. The public benefit sector is a large and very important sector of our society and we believe that their accounting requirements should be given equal status as part of the overall UK accounting framework and not set out in separate guidance.

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?

As already stated, we like the ‘one-stop shop’ offered by the current charity SORP and would like the public benefit entity standard to cover all the requirements for preparing true and fair view accounts.

A public benefit entity standard which just covers those issues where IFRS or IFRS for SMEs needs to be supplemented would be acceptable where there are few issues. However, IFRS for SMEs was not developed for public benefit entities and consequently there are many differences and therefore a full standard covering all requirements for a true and fair view would be preferable.

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? What other issues might the proposed standard include?

Yes. We think the standard should also cover accounting services/gifts in kind which can be a significant issue in the charity sector.

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?

It is difficult to determine the need for separate guidance until we have reviewed a proposed public benefit standard but due to the differences between the sectors covered by a public benefit standard it is likely that limited additional guidance will be required.

Different accountants can often have different views and therefore we would like the Board to provide a statement confirming the guidance is consistent with UK GAAP.

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. 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 main benefit of the proposals will be that charity accounting does not fall behind the rest of UK accounting.

It is difficult to determine the costs until we have seen a public benefit accounting standard. Once we have seen a public benefit standard (assuming this is the route adopted) then we can assess what level of resources we will need to commit to implementing the changes. This will definitely involve some training and we may have to recruit some additional expertise. It is likely that we will need some additional support from our external auditors.

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

The consultation states that the Board is planning a 'change date' for financial years beginning on or after 1 January 2012. We've assumed this means that entities with accounting periods beginning on or after 1 January 2012 would need to prepare accounts on an IFRS or IFRS for SMEs basis. We believe that this might be too early for charities and other public benefit entities.

Our preferred approach is that the Board prepare a public benefit entity standard. In our view, a 'change date' of 1 January 2012 is unlikely to provide enough time for a standard to be prepared, put out to consultation and finalised. Even once the standard is finalised, charities and other public benefit entities will need time to assess the impact and plan for the implementation.

Since the IFRS for SMEs has already been issued, it is possible that non-public benefit Tier 2 entities could adopt IFRS for SMEs from the proposed 'change' date. Whilst we have expressed a desire for charity accounting not to fall behind the rest of the UK we are not opposed to a lag of 2 to 3 years. This would allow time to develop a public benefit standard and also for the public benefit entities to learn lessons from the adoption of IFRS for SMEs by the other Tier 2 entities.