

Mr P Godsall  
Accounting Standards Board  
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1 February 2010

Dear Mr Godsall

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

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA, founded in 1919, is the world's leading and largest professional body of Management Accountants, with 172,000 members and students operating at the heart of business in 165 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

We attach responses to the individual questions raised in the discussion paper but would like to draw your attention to some of the specific points we make.

We believe that a very strict definition of public accountability may give rise to undesirable results in some situations. As a result we consider that a definition using a 'rebuttable presumption' approach would be better for unlisted entities. Listed entities we believe are publically accountable without exceptions.

We believe that the definition of public accountability should take into account the very significant economic impact a large entity can have on a broad range of stakeholders. We believe that these large entities should be deemed to be public accountable even though they may not have equity or debt traded on a public exchange. As such we would support a size criteria to be included within the general definition of public accountability.

We also believe that it would be onerous to require all entities to adopt full IFRS if they take deposits or hold funds for third parties. We believe that the measurement principles and disclosure framework of the IFRS for SMEs can be appropriate for these entities provided that they can demonstrate little public accountability.

UK GAAP currently allows an exemption for wholly-owned subsidiaries from the requirement to present a cash-flow statement on the basis that a group statement is presented in the consolidated accounts. We believe that this is an important exemption that should be replicated in a revised UK GAAP framework. We believe that the ASB should resist any calls for more widespread disclosure exemptions. To do otherwise could place a requirement on the ASB to review each and every change to IFRS to see whether a disclosure exemption was affected.

We attach responses to your specific questions and would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

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## **Responses to questions 1-9 of the consultation paper :**

***Q1 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?***

Overall we are concerned that the very prescriptive definition of public accountability may cause undesirable results for some entities. We believe listed entities are publically accountable but for other entities a 'rebuttable presumption' approach may be more appropriate. In particular we believe that a size criteria is important to include within the consideration of public accountability.

We believe that a size criteria needs to be a part of any public accountability definition. Many large entities that are not 'Listed Consolidators' can have a significant impact on economic affairs and should be required to report using EU adopted IFRS. The economic impact of small and medium sized entities is unlikely to be widespread and although some could be argued to be publicly accountable this accountability will be to a narrow set of stakeholders. We would advocate that these entities could either continue to use the FRSSE or adopt the IFRS for SMEs as appropriate.

Including a size limit rebuttable presumption would have the benefit that it would extend full IFRS to the majority of large entities but where there is genuinely little public accountability even for large organisations the IFRS for SMEs would still be available.

We are also concerned that the proposed definition of public accountability includes all deposit taking entities or entities that hold assets in a fiduciary capacity. Whilst in most cases organisations such as these are publically accountable there can be genuine exceptions. We would prefer an approach to defining public accountability that, as with size, provided a rebuttable presumption that these entities are publically accountable but did not mandate it if there was strong support to the contrary.

Extra disclosure should be a required if the presumptions are rebutted.

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

No we do not agree. Where the nature of the public accountability is narrow then we do not believe that the entity should be burdened with full IFRS. We would prefer that a size criteria is applied such that small and medium sized entities that could be deemed to have public accountability are not included in Tier 1.

***Q3 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?***

We agree that wholly-owned subsidiaries that are publicly accountable should, subject to the size criteria discussed in our responses to Q1 & Q2, apply EU Adopted IFRS.

***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.***

We believe that it would be appropriate to reduce the disclosure requirement for wholly owned subsidiaries applying EU adopted IFRS. To minimise the ongoing requirement for the ASB to review these exemptions whenever international standards change, we would suggest that only major exemptions are allowed such as an exemption from the requirement to present a cash flow statement. This exemption mirrors that currently enjoyed by wholly-owned subsidiaries.

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

We agree with the Board's proposal and reasoning.

***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 you think should be made, as well as the reason for recommending these amendments.***

Apart from an exemption for wholly-owned subsidiaries from the requirement to produce a cash flow statement, we agree with the Board's proposal to adopt the IFRS for SME without amendment.

***Q7 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 do not agree that very large entities should be permitted to use IFRS for SMEs. We believe that very large private entities do, by the very nature of their size, have a form of public accountability and so should be required to apply EU adopted IFRS.

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

Yes we agree with the Board's proposal to maintain the FRSSE for the foreseeable future. We note that the FRSSE has only relatively recently been updated for the Companies Act 2006 and that the EU is currently considering financial reporting by micro-entities. It seems sensible to wait for the outcome of this EU initiative before deciding the future of the FRSSE.

***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?***

We agree