For the attention of Peter Godsall
Accounting Standards Board
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Holyoake House
Hanover Street
Manchester
M60 0AS

29 January 2010

Dear Sirs

The Future of UK GAAP

Attached is the response of the Co-operative Performance Committee (CPC) of Co-operatives^UK in relation to the Consultation Paper.

CPC is a standing committee of Co-operatives^UK, which brings together professionals from within the co-operative movement to take responsibility for the movement's performance indicators and for promoting best practice on accounting standards.

Co-operatives^UK is a co-operative owned and democratically controlled by its members. It was launched in January 2003 following the merger of the Co-operative Union (established in 1869) and the Industrial and Common Ownership Movement (ICOM). Co-operatives^UK can therefore claim to have been in the business of promoting and representing co-operative enterprise for over 140 years. Co-operatives^UK membership comprises individual co-operative enterprises ranging in size and diversity from large consumer owned co-operatives to small worker owned co-operatives. The number of co-operative organisations in membership exceeds 500 and has a combined turnover in excess of £13 billion. They employ over 98,000 staff trading through 4,500 retail outlets.

Summary Comments

In general, we support the Board's proposals and the differential reporting regime based on public accountability. In our responses to the questions raised by the Board we have identified some areas of concern and specifically to those involving credit unions where we believe that the definition of public accountability needs more refinement to ensure that organisations of this size and nature are taken into account.

We also agree that in the longer term it makes no sense for the use of two different accounting frameworks in the UK.

Responses to specific questions raised

Question 1 – Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definition (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.

As we believe that the tiering proposed gives the most appropriate information for the likely users of the accounts for each of the relevant tiers, our preference is for the Board's proposal. However we do not believe it is appropriate that UK credit unions be required to do full IFRS accounts. These are mainly small volunteer led savings and loan co-operatives. Full IFRS will be beyond most of these organisations as indeed will full IFRS accounts be beyond the understanding of most of their members. Given that these are member organisations the key users of the accounts must be the members, and therefore anything that reduces understanding of the members, which full IFRS is likely to, must be a step backwards.

Therefore, while we support the Board's approach to tiering based on public accountability, we do not accept that small credit unions, with a limited membership are "publicly accountable". We therefore suggest that the Board re-examines its definition of "public accountability" in paragraph 2.3 (11) to exclude such organisations. In particular it should consider carefully what is meant by "holding assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses" and as a minimum issue additional guidance on it.

Similar arguments can also be used for small Friendly Societies with a limited number of members/depositors.

Paragraph 4.4 suggests that most Co-operatives will not fall within the definitions of public accountability. We agreed with this interpretation of the public accountability test and welcome this clarification as it means there will be a level playing field for reporting between companies and Co-operatives of a similar size and nature.

We note that it is currently unclear how the proposed tiers will be integrated into the requirement of various legislation that drives the requirements for accounts, eg Industrial and Provident Society Acts, Companies Act 2006 etc.

Finally we note that there is little guidance on accounting for transition between accounting regimes which does not constitute first time adoption eg for example an IPO of a company, or a voluntary movement from Tier 2 to Tier 1 at some time in the future. We believe that such guidance would be helpful.

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

Yes, we agree that all entities that are publicly accountable should be included in Tier 1. However as noted above we have some concerns around the definition of "public accountability".

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?

Yes, we agree with the Board's proposals. It is our view that this should be kept clear and simple.

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, we do not consider that wholly-owned or any other subsidiaries that are publicly accountable should be allowed reduced disclosures,

However, we consider that wholly-owned subsidiaries that are not publicly accountable should be allowed reduced disclosures whether they apply the IFRS for SME's or full EU adopted IFRS. In particular we consider the presentation of a cash flow statement in every set of subsidiary accounts and the disclosure of inter-group related party transactions to be particularly onerous and of little value and would suggest that an exemption be granted.

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

Yes, we agree with the proposal. In the longer term we accept that the maintenance of UK GAAP in its current form is not sustainable.

Question 6 – Do you agree with the Board's proposal that the IFRS for SME's should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendment that should be made, as well as the reasons for recommending those amendments.

We are attracted to the proposal of the Board to adopt the IFRS for SME's wholesale. To us this gives the major advantage that it is clear, simple and easy to follow.

There are however a number of areas we have concerns about where the Board may consider amending the IFRS for SME's as follows:

- our response to question 4 suggests some disclosure exemptions for non publicly accountable subsidiaries in the areas of cash flow statements and inter-group related party transactions;

- we are concerned about the approach to deferred taxation in the IFRS for SME's and consider that either it should be based on the current UK GAAP approach or failing that based on the requirements of IAS 12;

- the references to full IFRS in the IFRS for SME's should be replaced with references to EU adopted IFRS to reduce scope for any confusion.

Question 7 – Do you agree with the Board's proposal that large non-publicly accountable entities should be permitted to adopt IFRS for SME's? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

Yes, we agree with the proposal that large non publicly accountable entities should be permitted to adopt the IFRS for SME's. Size should not be a reason for full IFRS, there would always be a debate on the definition of size. In our opinion the main reason for the introduction of IFRS was to ensure consistency of accounting for entities raising funds on the capital markets. The majority of investors in these markets are professional and will be able to understand the difference between EU adopted IFRS and the IFRS for SME's.

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

Yes, we agree that the FRSSE should remain in force for the time being. However we believe that its principles should be consistent with IFRS for SME's rather than existing UK GAAP.

Question 9 – Do you agreed that the FRSEE could be replaced by the IFRS for SME's after an appropriate transition period, following the issuance of the IFRS for SME's?

Yes, alternatively as with question 8 we could see a FRSSE based on the principles of IFRS for SME's having a continuing life. We do not believe it will be sustainable to have an FRSSE based on the principles of existing UK GAAP as knowledge will quickly degrade.

Question 10 – Do you agree with the Board's current views on the future of SORP's? If not, why not?

We agree that relevant SORP's should remain where there is a clear and demonstrable need arising from sector-specific issues not covered by guidance in accounting standards. The Board will need to carefully consider where these gaps are.

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, we agree with the Board's proposal to develop a public benefit entity standard based on IFRS principles.

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 SME's needs to be supplemented for the public benefit entity sector?

If a public benefit entity standard is developed, we believe that it should cover all requirements for preparing true and fair view accounts. As with the SME standard itself, we see great advantages for entities having a "one stop shop" piece of literature to refer to in preparing public benefit entity accounts.

Question 13 – Do you agree the issues listed in the above table are distinctive for public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

We agree with the inclusion of the issues tested in the table. We have no other issues to add.

Question 14 – The Board accepts that 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?

Yes, we consider the Board should continue to provide a statement confirming that any such guidance is not inconsistent 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) which positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

Responding on behalf of our members who are preparers of accounts whose financial statements will change:

Benefits

Our members see no benefits, other than it is clearly not sustainable to retain UK GAAP in its current form in the long run and this is the best option to change.

Costs

Our members have not considered the costs in detail and therefore it is difficult to suggest a magnitude of the costs involved, however it is believed that the majority of the additional costs will be associated with the one off cost of change rather than lead to an increase in the ongoing cost of reporting. Such costs will include: advisors fees; staff training; additional staff costs to convert chart of accounts; budgets; management reporting; and costs associated with systems changes.

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

We support the proposed adoption date of 2012 as such a date would see and end to the current uncertainly over the future of UK GAAP. However to achieve such a date the Board will need to move quickly to a final position as entities will need time to deal with practical matters including many of the areas set out as costs above. Given that for a 31 December 2012 year end the opening balance sheet at 1 January 2011 will need to be converted to achieve this entities will need certainty about the position by summer 2010. A delay beyond that would make a 2012 date difficult to achieve.

Please contact Phil Holmes on 0161 246 2910 if you wish to discuss any aspect of these comments in more detail.

Yours sincerely

Phil Holmes
Secretary to Co-operative Performance Committee