ASB Policy Proposal: the future of UK GAAP

ASB Question	M&G Response
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?	As a fund management company M&G is concerned about the impact of the proposals on its range of authorised funds, common investment funds and investment trusts that prepare financial statements. All of these investment vehicles would be captured under proposed definition of Public Accountability (paragraph 2.3). M&G does not have any opposition to this definition however it would result in these investment vehicles being included in 'Tier 1'.
Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?	As noted in the response to question one M&G's investment vehicles would be treated as publicly accountable and therefore would be included within Tier 1, requiring full EU-adopted IFRS to be applied to financial statements. The requirements of users of the financial statements of listed entities and those of entities that hold clients' assets in a fiduciary capacity will be different. Therefore, it would be useful to have a second category within the definition of Public Accountability that provides for the distinct needs of the users of financial statements of those entities that hold clients' assets in a fiduciary function. Full EU-adopted IFRS will require these vehicles to include many extra disclosures which will not be relevant to the users of their financial statements. This group of vehicles could be required to comply with the recognition and measurement requirements of EU-adopted IFRS but with reduced disclosure options. These reduced disclosure options could be prescribed in regulations or in the relevant SORP.
Question 3 – Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted	No response

M&G INVESTMENTS

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IFRS? If not, why not?	
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 response
Question 5 – Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?	No response
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.	No response
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.	No response
Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?	No response

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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?	No response
Question 10 – Do you agree with the Board's current views on the future role of SORPs. If not, why not?	M&G feel that it is important that the the AIC and IMA SORPs are not withdrawn. These SORPs provide guidance for specific issues that are not covered by accounting standards and without the ASB's endorsement it could result our customers not be treating fairly if conventions and disclosures that are potentially inappropriate or complex are applied differently by the industry. Accounting standards are concerned with total returns but do not give guidance on the split of these returns between revenue and capital or distributable income all of which are key to producing financial statements for these investment vehicles that reflect a true and fair view. They also provide guidance on specific presentation issues that satisfy the specific industry related requirements of the users of these financial statements making them comparable. It is the FSA regulations that require the financial statements to give a true and fair view of the net revenue and net capital gains or losses for the annual accounting period and the SORP provides the additional guidance required to provide this information. HMRC legislation (including the new offshore fund rules) requires compliance with the IMA SORP. M&G's investment trust are split capital trusts which makes it especially important that there is guidance on how returns are split between revenue and capital as this has a significant impact on the underlying shareholders. It is therefore essential that the ASB continues to endorse these SORPs.

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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?	No response
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?	No response
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?	No response
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?	As the charities regulations require the common investment schemes, for which M&G prepares financial statements, to be prepared under the principles of the IMA SORP it is essential that the ASB continue to endorse the IMA SORP.
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	The proposals would require M&G to prepare financial statements for the investment vehicles under EU Adopted IFRS. For the investment trusts there will be minimal impact on the basis of

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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?	preparation as substantially all the requirements of IFRS have already been met through the adoption of FRS 23 to 29. That said it is still important that the AIC SORP provides guidance on the split of returns been revenue and capital as this is not provided within either UK or International Financial Standards. This is particularly important for M&G's split capital investment trusts. For the other funds for which M&G prepares financial statements, the adoption of EU adopted IFRS will require extra disclosures to be provided that will not enhance the financial statements for their users. This is where Tier 1 could be adjusted to reflect the needs of both those listed entities and those entities that hold clients' assets in a fiduciary capacity, with reduced disclosure requirements for the latter group. Currently these funds are not required to comply with FRS 23 and the adoption of this standard will represent a challenge for funds where investments are predominately in one currency, financing activities in another and costs in another. There is also the potential for these factors to change as investment decisions change or shares created in or liquidated in different currencies. Again it is important to retain the ASBs endorsement of the IMA SORP to provide this disclosure guidance as well as providing the additional guidance, not provided by UK or International FRS, on the split of returns between revenue and capital to allow compliance with regulations and consistency in the presentation of these results across the funds industry.
Question 16 – What are your views on the proposed adoption dates?	We are concerned that this date is too soon especially when combined with the uncertainty around potential changes the IASB intends to make to standards, specifically the financial instruments standards.