

Accounting Standards Board
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LONDON
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18 November 2009
KJM;mf/01809/corr

Dear Sirs

Consultation Paper – The Future of UK GAAP

I write in response to the consultation paper published by the Board in August 2009 regarding the future of UK GAAP.

By way of explanation, Arnold Clark Automobiles Limited is a large private company and is owned by Sir Arnold Clark, our Chairman and Chief Executive Officer, and his family. The group's principal activity is the selling, servicing and hiring of motor vehicles. Arnold Clark Automobiles Limited is Europe's largest independently owned, family run, motor dealer. Founded over 54 years ago by Sir Arnold, the business has expanded from a single car showroom in Glasgow to a UK wide organisation employing and training over 8,000 members of staff with a turnover in excess of £2 billion. The Arnold Clark network has 145 dealerships throughout the UK.

Our statutory accounts are currently produced under UK GAAP with the exception of our Maltese insurance captives which are required under Maltese law to produce accounts which comply with EU adopted IFRS.

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)?

It is stated in the policy paper that there is an argument that large companies are deemed to have public accountability by the Companies Act 2006. We would in this first instance refute this argument as there are numerous differences specifically drawn between public companies and private companies irrespective of size, for example the requirements to lay accounts at an annual general meeting in section 437, the filing requirements in section 442 and the differentiation of rules regarding the appointment of auditors in sections 485 to 494. Were large private companies deemed to be publicly accountable then more of these areas would be extended to include them. The inference seems to be that companies that are neither small nor medium in size must be publicly accountable. We cannot agree with this point of view.

We do prefer the definition of publicly accountability contained within the IASB's current draft of the IFRS for SMEs, however, our opinion remains firmly that EU adopted IFRS should be reserved for listed public companies, irrespective of whether a company meets the technical definition of public accountability.

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

A very small proportion of our income is derived from selling payment protection insurance, extended warranties and vehicle replacement insurance to our customers when they purchase a motor vehicle from us. These policies are underwritten by our captive insurance companies in Malta and we are currently advised that the presence of these companies will result in the group being deemed to be publicly accountable under the definitions contained within the IFRS for SMEs.

The additional disclosures required by adopting full IFRS rather than IFRS for SMEs would, in our opinion, provide nothing more in the way of meaningful information to the purchasers of our products and in adding significantly to the size and complexity of our statutory accounts may well confuse other stakeholders, particularly our shareholders, suppliers and funding partners. The main safeguard for the purchaser of one of the insurance products is the presence of a statutory regulator, in this case the Financial Services Authority which regulates our selling of these products in the UK and the Maltese Financial Services Authority which regulates the products themselves. At present we have received no indication from either regulator that they require the group's financial statements to be prepared in EU adopted IFRS to enable them to carry out their regulation effectively.

We would therefore argue that EU adopted IFRS should continue to be applicable to listed companies as at present to avoid requiring relatively small companies to apply full IFRS when the costs of complying will significantly outweigh the benefits of doing so.

We do, however, note that this would require deviating from the IFRS for SMEs as drafted by the IASB which in Section 1.5 specifically prevents publicly accountable entities (as defined) describing their accounts as "conforming to the IFRS for SMEs – even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities."

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?

We believe that EU adopted IFRS should be reserved for listed public companies and therefore should not be applicable to wholly-owned subsidiaries.

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

We believe that EU adopted IFRS should be reserved for listed public companies. There would, therefore, be no need to consider reduced disclosure requirements.

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

Whilst we have some reservations about the costs of complying with the IFRS for SMEs we are broadly in agreement with the proposal that IFRS for SMEs should be used by Tier 2 entities.

Question 6 – Do you agree with the Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended?

Whilst we have some reservations about the costs of complying with the IFRS for SMEs we are broadly in agreement that for simplicity the IFRS for SMEs should be adopted wholesale 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.

The current criteria for large companies catch a significant number of relatively straight forward owner managed businesses simply because they relate to turnover and total assets. In our case our turnover is significant because we sell high value items (ie motor vehicles) and our assets are similarly increased by the need to hold a stock of said items. However, despite the significant monetary values involved we operate a very simple business model and can see no justification for applying EU adopted IFRS to our financial statements.

As noted previously we can not foresee any positive benefits of doing so; indeed the increase in disclosures is more likely to have a detrimental effect on a significant proportion of the individuals who receive copies of our financial statements. At the same time we predict that the application of EU adopted IFRS will have real, tangible costs both in terms of management time and monetary costs. Whilst an element of these costs will be one-off costs, incurred upon initial conversion, there will be a significant element of recurring costs, particularly resulting from the more stringent requirements of IFRS 3 Business Combinations and IFRS7, IAS 32 and IAS 39 on financial instruments.

As a relatively large motor retailer we will have sufficient resources to cope with the additional burden, albeit these resources would be better utilised elsewhere. It is worth noting, however, that a significant number of relatively small dealer groups would be also be required to use EU adopted IFRS if it were made compulsory for large entities, again by virtue of the significant monetary value of individual items. Many, if not all, of these companies simply do not have the resources or the knowledge to cope with the complexities of EU adopted IFRS and would therefore incur significant, bordering on prohibitive, costs from their professional advisers to enable them to comply with their statutory reporting requirements.

As a final issue, the application of EU adopted IFRS to large companies would give rise to a new set of transitional issues were a company to grow beyond the current medium company limits. Given the differences in accounting treatment in various matters between full IFRS and IFRS for SMEs and given the simplifications included the IFRS for SMEs this would undoubtedly result in a second conversion exercise and a second set of conversion costs.

As a result we believe that EU adopted IFRS should continue to be reserved for listed public companies and that all other entities should be permitted to adopt IFRS for SMEs

Questions 8 -14

These do not apply to our business and therefore we are not in a position to comment

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?

As noted above we anticipate that under the proposals as currently worded we will be forced into preparing statutory accounts under EU adopted IFRS, which was clearly intended for complex, listed multi-national groups and not for owner managed businesses who happen to be large by nature of the industry in which they operate. We anticipate that our annual report will increase from 32 pages to closer to 100 pages with the additional notes providing no additional benefit to the users of our accounts, that the preparation of our accounts will expend significantly more management time that could be better utilised in running the business for the benefit of the shareholders and that our audit fees are likely to increase significantly without any increase in the level of assurance provided to our shareholders.

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

Providing the actual requirements are published before 30 June 2010 we do not foresee any issue with the proposed adoption dates. However, should the standard not be available in its final format by that date we believe that the adoption dates would have to be pushed back by 12 months to allow companies sufficient time to prepare for the conversion of their opening balance sheet.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'K J McLean', is written over the typed name.

K J McLean B.Acc (Hons) C.A
Group Finance Director