



**THE INSTITUTE
OF CERTIFIED
BOOKKEEPERS**

The Future of UK GAAP & the new IFRS for SMEs

Ian Mackintosh

UK Accounting Standards Board

David Tyrrall

Department for Business

Institute of Certified Bookkeepers

November 2009

About the ASB and BIS

- BIS is Department for Business, Innovation and Skills. Within BIS, Corporate Law and Governance have responsibility for Companies Act 2006.
- Accounting Standards Board (ASB) is the body prescribed in UK Companies Act 2006 to set standards for those who do not apply EU adopted IFRS.
- In developing these proposals the ASB has worked closely with BIS in considering issues arising between accounting standards and the law.

Coverage

- The future of UK/Irish GAAP
- Convergence with IFRS & the impact of the IFRS for SMEs.
- Differential reporting: public accountability and tiers.
- Assessing the impacts of change.
- Practical issues: managing any transition.

Role of the ASB: Standard-setting

- Most companies have the option to move to IFRS, but most of them still on UK/Irish GAAP.
- ASB has a role in maintaining an appropriate regime for GAAP.
- Current UK GAAP are partially converged with IFRS but is this sustainable in the long term?
- Strong view that we cannot sustain two different accounting frameworks.

Proposed UK GAAP

- Will it lead to Tiers?
- ASB proposal = 3 tiers
- Other suggestions for 2 tiers

Proposed UK GAAP: Three Tiers?

Tier 1	publicly accountable entities	IFRS as adopted by the EU (via IAS Regulation or by putting EU-IFRS into GAAP)
Tier 2	all other entities except small entities	IASB's standard for Small and medium-sized Entities (IFRS for SMEs).
Tier 3	small entities	ASB's Financial Reporting Standard for Smaller Entities (FRSSE) (at least for a transitional period).

Other suggestions?

Tier 1	all entities except small entities	IFRS as adopted by the EU (via IAS Regulation or by putting EU-IFRS into GAAP)
Tier 2	small entities	ASB's Financial Reporting Standard for Smaller Entities (FRSSE) (at least for a transitional period).

Other suggestions?

Tier 1	publicly accountable entities	IFRS as adopted by the EU (via IAS Regulation or by putting EU-IFRS into GAAP)
Tier 2	all other entities	IASB's standard for Small and medium-sized Entities (IFRS for SMEs).

Future UK GAAP: Will it lead to Tiers?

- Under any of these approaches all entities will have the option to voluntarily adopt a higher tier.

Tier 1: Who has Public Accountability

- An entity has public accountability if:
 - Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market including local and regional markets); OR
 - It is a deposit-taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities broker/dealer, mutual funds or investment banks.

Tier 1:

GAAP Implications

- Is public accountability determined by the nature of the entity alone? Or should size matter? Think about.....
- Individual listed companies.
- Large private companies.
- Subsidiaries of listed companies.
- Investment funds and companies.
- Charities and other not for profits.
- Building societies, other mutuals and co-operatives.

Are these entities “publicly accountable?”

Would full IFRS be appropriate or onerous?

Tier 2:

GAAP Implications

- IASB SME standard determining the cut-off points – is it suitable for the very large and/or the small?
- Implications of the EU Commission's simplification project.
- Compatibility with the EU Accounting Directives.
- Potential implications of Commission proposal on micro-entities and UK Government's simplification project on micro-entities.

Tier 3: GAAP Implications

- Current thinking is to keep the FRSSE, but for how long?
- Transitional period, or how long?
- If indefinitely, ASB would need to 'internationalise' it.
- Potential implications of Commission proposal on micro-entities and UK Government's simplification project on micro-entities.

Micro-entities

- European Commission proposal
- Thresholds:
 - 10 employees
 - Euro 1m turnover
 - Euro 0.5m total assets
- Could be exempted from
 - 4th (Accounting Directive), hence
 - CA 2006 (Part 15 and Regulations)

Micro-entities

- Why exempt?
- Aim is not
- ‘no accounting, no reporting’
- But ‘simplified accounting and reporting’
- By alignment of financial and tax reporting
- To have micro entities do one set of calculations, generating one report, submitted to one government entity, once.

Micro-entities

- Opposition among Member States
- Because of fears of unfair competition and/or loss of tax base.
- UK government still pressing for this.
- But if it fails, there may be methods of introducing micro-entities at a UK level.

SORPs: The Future?

- Is there a future role for SORPs? Is there still any benefit in terms of having SORPs?
- Future of majority SORPs dependent on the progress of IASB's initiatives e.g. Insurance, Leases.
- Remaining SORP's should be withdrawn and replaced by IFRS e.g. LLP's, Investment Companies.

Next Steps

- Roundtable to discuss responses.
- Issue an Exposure Draft after the consultation process.
- Explore the most appropriate mechanism to implement a public accountability basis for differential reporting.
- Planning a 'change' date for financial years beginning or after 1 January 2012.

The Future of UK GAAP & the new IFRS for SMEs

We would very much appreciate it if you could take the time to fill in a short questionnaire following Ian Mackintosh & David Tyrall's presentation. The questionnaire can be found on the conference downloads page of our website.

Please return your completed questionnaire to us at:

The Institute of Certified Bookkeepers
Wolverton Park
Wolverton
Hampshire
RG26 5RU

Thank you.



**THE INSTITUTE
OF CERTIFIED
BOOKKEEPERS**