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Accounting Standards Board
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asbcommentletters@frc-asb.org.uk

23 August 2010

Dear Sirs,

Assessing the impact of the ASB's proposals for the future of UK and Irish Republic Reporting

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Financial Reporting Committee has examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

Our comments in this letter are based on our earlier response to the policy proposal on 'The Future of UK GAAP' and subsequent reflections having regard, in particular, to the results of a survey of finance directors of QCA Corporate Members, the ICAEW Roundtable on 'The Future of UK GAAP' in July and a very helpful discussion attended by Ian Mackintosh and representatives of the London Stock Exchange and the Department for Business, Innovation and Skills at the July meeting of the QCA Financial Reporting Committee.

Overall View

Our overall view, discussed below, is that we are not currently persuaded that the case for changing from the existing arrangements has been satisfactorily made and we can see reasons for delaying such a change.

Responses to Individual Questions

1. Comments on the overall direction of travel for the UK Financial Reporting Framework

We have significant concerns with the proposal that AIM-quoted companies be included within the scope of publicly accountable entities. As discussed at the July meeting of the QCA Financial Reporting Committee, this would eliminate the flexibility the London Stock Exchange currently possesses to change their present requirement for full IFRS accounts to an alternative, e.g. that AIM companies prepare financial statements in accordance with IFRS for SMEs, of which we would generally be supportive, subject to more detailed discussion on changes to the core document if implementing such an approach in the UK. Some changes will be needed anyway to ensure IFRS for SMEs is consistent with the relevant European Directives.

With so many potentially new IFRSs in the course of drafting at present, we are increasingly not persuaded that now is the most appropriate time to be more fully embracing IFRS and introducing IFRS for SMEs, or variants on it, into UK GAAP. A number of IASB proposals in IFRS documents in the course of preparation are controversial and potentially would add significant costs for preparers.

Until it is clear how key issues in the proposals are finally resolved and the extent to which the new treatments and disclosures impact the next version of IFRS for SMEs, cost/benefit calculations of the proposed changes in the UK are inherently subject to substantial uncertainty. In these circumstances, it may well be better to wait until the new IASB chairman is in place and his/her future strategy is clearer, and until the new standards have been approved and the next version of IFRS for SMEs finalised before taking a decision. The counter argument we have heard is that it is hard to keep going forward with UK GAAP as it is increasingly outdated; but, we are not aware of significant evidence to support this argument.

We consider particular care should be taken at present, while growth of the economy remains fragile, not to detract finance directors and their teams from focusing their efforts on growing their businesses in a sustainable fashion. Significant accounting changes, unless they will bring very demonstrable net benefits to preparers and/or users of financial statements, should not be introduced at the moment.

Moreover, before preparing the exposure draft, we believe the ASB should have detailed discussions with the major users of the financial statements of smaller listed and AIM companies to ascertain what information they need and actually use. This will ensure proposals for this group of companies are properly evidence based. We will be happy to work with the ASB on this matter.

2. The overall impact of the proposed UK Financial Reporting Framework in terms of its likely costs and benefits

We would like to outline some important general points. Firstly, we believe it is the responsibility of the ASB to demonstrate that the benefits of its proposals outweigh the costs associated with them. It is not satisfactory, we believe, to place the onus on commentators to demonstrate that alternative proposals that they suggest are more acceptable on a cost/benefit basis, without the ASB having first undertaken the previous calculation and provided sufficient analysis to enable discussion on it.

Secondly, there should be appropriate segmentation in the cost/benefit impact assessment, in that the assessment of smaller listed and AIM companies should be dealt with separately from that of FTSE 350 companies where benefits to the capital markets from the use of IFRS are likely to be much greater.

3. **The impact if the ASB were to propose increasing the scope of the FRSSE to include larger entities (for example, to include all medium-sized entities, or to use an alternative size criteria).**

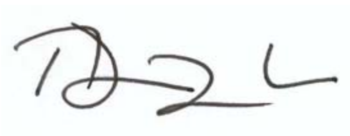
We do not have a particular view on this as it is not likely to affect our members. But if larger companies are allowed to use the FRSSE, it is likely to reduce the accounts preparation costs for at least some of them.

4. **The impact of the proposed UK Financial Reporting Framework on taxation and distributable profits?**

It is certainly the case that most companies, whose group accounts are prepared in accordance with IFRS, still prepare their individual accounts in accordance with UK GAAP. One reason for this, which has been suggested to us, is that the amount of taxation due in different periods may be more volatile under IFRS than UK GAAP, though clearly this would depend, among other matters, on transitional provisions that were put in place in the period of switching from current UK GAAP to IFRS (and variants on it). We believe the ASB should hold detailed discussions with relevant government departments on this issue before issuing an exposure draft.

If you would like to discuss any of these issues, we would be to attend a meeting.

Yours fatihfully,



Tim Ward
<u>Chief Executive</u>

APPENDIX A

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)*	-	Mazars LLP
Peter Chidgey	-	BDO Stoy Hayward LLP
Sarah Cox	-	Ernst & Young LLP
Ian Davies	-	Victoria plc
David Gray	-	DHG Management
Chris Ogle	-	SQC Consultant
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	RSM Tenon Group PLC
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author(s)

The QCA Financial Reporting Committee's Corporate Reporting Charter

The Quoted Companies Alliance

» The Quoted Companies Alliance is committed to working with boards, investors, regulators and standard-setters to promoting high quality corporate reporting by quoted companies, especially smaller quoted companies.

We will encourage the boards of quoted companies to be aware of the importance of high quality reporting in order that the market can have confidence in their businesses and in the information provided by companies generally. In order to undertake our work effectively, we will work with investors to better understand their information needs. We will also encourage standard-setters, regulators and others to set standards and other requirements that meet the genuine needs of investors in a practical way.

» We seek to foster a culture of continuous improvement in corporate reporting.

We will encourage companies to keep their corporate reporting under regular review and to seek ways of responding to changing market needs. Information provided should be understandable, avoid unnecessary complexity, be presented in a timely fashion and in a format that makes use of modern technology where appropriate. We will similarly encourage regulators and standard-setters to remain responsive to marketplace changes and to provide information to preparers on good practice and on reporting issues which companies generally need to address. Standard-setters should also take a strategic rather than a piecemeal approach to their work and should periodically seek to eliminate requirements which have not been found to provide useful information.

» We believe the concept of stewardship lies at the heart of good corporate reporting.

Directors are responsible to the shareholders for the long-term success of their businesses and this will have a bearing both on what they are expected to report on and the most suitable method of measurement in financial statements. It is likely to have implications, for example, for the circumstances in which fair values are used and for what is considered to be the most appropriate means of measuring fair value in particular situations.

» Corporate reporting requirements should be subject to robust cost-benefit tests.

Standard-setters need to carefully assess the costs compared to the benefits of introducing requirements and to avoid unintended consequences wherever possible. To do this, they need to be conscious of the risks of a 'one-size-fits-all' approach since quoted companies encompass both global companies with a market valuation of tens of billions of pounds and smaller quoted companies with one of a relatively few million pounds. Moreover, there should be a clear and public consensus between boards, investors, standard-setters, regulators and auditors on how materiality is to be applied in practice by companies when preparing their financial statements. A proportionate approach to corporate reporting that focuses on significant disclosures and avoids clutter in the financial statements with immaterial disclosures will both improve the quality of corporate reporting and reduce the costs of providing relevant information.

» We press for accounting standards which properly reflect economic reality when implemented.

Standards when applied, as well as when written, should focus on principles and not rules, enabling appropriate judgement to be exercised, and in their drafting should take account of practical concerns raised when they are being prepared. In measurement terms, a theoretically optimum solution may turn out to be sub-optimal if, for example, the assumptions of active markets are not met in practice. A mission to reflect economic reality also calls for post-implementation reviews of issues arising. Furthermore, investors may well wish to distinguish between those profits that have between realised in cash and those that have not. Moreover, how best to reflect economic reality may be impacted by the time horizon over which performance is being measured. Further work on what is meant by, and how best to capture, economic reality in financial statements would be helpful. There should be a pre-eminent emphasis on economic reality when standard-setters agree on convergence programmes.

» Standard-setters should be in close touch with their marketplace.

In a fast-changing modern market economy, if standards are to reflect economic reality and to be practical, the standard-setters need to be fully in touch with their marketplace. Standard-setters as a team should have substantial current or recent practical experience of operating in the marketplace as a user, preparer or adviser. They should also be drawn from a broad range of backgrounds, including those related to smaller quoted companies as well as to global corporations.

» We emphasise the importance of good narrative reporting as an integral part of corporate reporting.

Whilst the focus on narrative reporting is increasing, it has traditionally tended to be the 'Cinderella' of the corporate reporting model. To enable the development of a business to be seen in its proper context, it is essential that high quality information be provided on its strategy, its key risks and how they are being managed, the KPIs used to manage the business, current performance and future prospects, and its corporate governance.

1. Which market are your shares traded on?

	Response Percent	Response Count
Main	6.7%	1
AIM	**93.3%**	**14**
PLUS	0.0%	0
	answered question	**15**
	skipped question	**0**

2. How many UK subsidiaries do you have (excluding those preparing dormant company accounts)?

	Response Percent	Response Count
0	6.7%	1
1-5	**73.3%**	**11**
5-10	6.7%	1
10-20	13.3%	2
>20	0.0%	0
	answered question	**15**
	skipped question	**0**

3. HMRC will continue to require some sort of accounts to support a tax computation, but are you aware of any other users of your subsidiaries' accounts? How can these users of your accounts be grouped, to which of the following groups of users would your accounts be relevant?

	Response Percent	Response Count
Bankers	69.2%	9
Credit Reference Agencies	**84.6%**	**11**
Customers	61.5%	8
Suppliers	53.8%	7
Employees	23.1%	3
Shareholders	15.4%	2
Other (please specify)	7.7%	1
	answered question	**13**
	skipped question	**2**

4. Publication of accounts is often considered to be the quid pro quo for limited liability. Those holding this view may require some form of parent company guarantee if a subsidiary does not publish accounts. Would you be prepared to give some form of guarantee in order to avoid having to publish subsidiary accounts?

	Response Percent	Response Count
YES	30.8%	4
NO	**69.2%**	**9**
	answered question	**13**
	skipped question	**2**

5. If you were to give such a guarantee, would you be prepared to guarantee the subsidiaries' liabilities up to the date that it next publishes accounts?

	Response Percent	Response Count
YES	**60.0%**	**6**
NO	40.0%	4
answered question		**10**
skipped question		**5**

6. If not, how long a guarantee period do you think is reasonable (from date of last publication of accounts)?

	Response Percent	Response Count
Less than a year	**66.7%**	**4**
1-2 years	33.3%	2
2-5 years	0.0%	0
>5 years	0.0%	0
answered question		**6**
skipped question		**9**

7. What other restrictions would it be reasonable to see in such a guarantee?

	Response Count
	2
answered question	**2**
skipped question	**13**

8. What would be the direct cost saving per subsidiary if you did not have to publish accounts for them?

	Response Percent	Response Count
< £1,000 per subsidiary	**30.8%**	**4**
£1,000 - £2,500 per subsidiary	**30.8%**	**4**
£2,500 - £5,000 per subsidiary	**30.8%**	**4**
£5,000 - £10,000 per subsidiary	7.7%	1
>£10,000 per subsidiary	0.0%	0
	answered question	**13**
	skipped question	**2**

9. What would be the direct time saving per subsidiary if you did not have to publish accounts for them?

	Response Percent	Response Count
Less than 1 person-day per subsidiary	7.7%	1
1-2 person-days per subsidiary	**38.5%**	**5**
2-5 person-days per subsidiary	15.4%	2
5-10 person-days per subsidiary	30.8%	4
>10 person-days per subsidiary	7.7%	1
	answered question	**13**
	skipped question	**2**

10. Subsidiaries have to prepare information to be input into group consolidations. Would you like the content of subsidiary accounts to be restricted to just this information? N.b. the information would be based on group materiality levels. [This may require a change in company law (and maybe EU directives). Such accounts might not be described as presenting a "true and fair view".]

	Response Percent	Response Count
YES	46.2%	6
NO	**53.8%**	**7**
answered question		**13**
skipped question		**2**

11. How much would you save per subsidiary if their accounts were limited in this way?

	Response Percent	Response Count
< £1,000 per subsidiary	**58.3%**	**7**
£1,000 - £2,500 per subsidiary	0.0%	0
£2,500 - £5,000 per subsidiary	25.0%	3
£5,000 - £10,000 per subsidiary	8.3%	1
>£10,000 per subsidiary	8.3%	1
answered question		**12**
skipped question		**3**

12. Do you have an alternative view on how to limit the content of subsidiaries' accounts. If so, please could you provide details.

	Response Count
	1
answered question	**1**
skipped question	**14**

13. If your customers were subsidiaries of another group producing such limited accounts, as set out in question 10 above, would you be able to carry out adequate credit checks on them?

	Response Percent	Response Count
YES	46.2%	6
NO	**53.8%**	**7**
	answered question	**13**
	skipped question	**2**

14. If not, what additional information would you need to perform your credit checks?

	Response Count
	4
answered question	**4**
skipped question	**11**

15. If your suppliers were subsidiaries of another group producing such limited accounts, would you be able to carry out adequate checks on their financial stability?

	Response Percent	Response Count
YES	46.2%	6
NO	**53.8%**	**7**
	answered question	**13**
	skipped question	**2**

16. If not, what additional information would you need to perform your financial stability checks?

		Response Count
		4
	answered question	**4**
	skipped question	**11**

HMRC will continue to require some sort of accounts to support a tax computation, but are you aware of any other users of your subsidiaries' accounts? How can these users of your accounts be grouped, to which of the following groups of users would your accounts be relevant?

	Response Percent	Response Count
Bankers	69.2%	9
Credit Reference Agencies	**84.6%**	**11**
Customers	61.5%	8
Suppliers	53.8%	7
Employees	23.1%	3
Shareholders	15.4%	2
Other (please specify)	7.7%	1
	answered question	**13**
	skipped question	**2**

Other (please specify)		
1	Trade Licensing Authorities	Jul 14, 2010 4:22 PM

What other restrictions would it be reasonable to see in such a guarantee?

	Response Count
	2
answered question	**2**
skipped question	**13**

Response Text		
1	No more liability on the guarantor than exists within the arrangement being guaranteed. It is surprising how many requests for guarantees do not contain this cap	Jul 14, 2010 4:27 PM
2	Usual reasonableness limitations	Jul 14, 2010 8:17 PM

Do you have an alternative view on how to limit the content of subsidiaries' accounts. If so, please could you provide details.

	Response Count
	1
answered question	1
skipped question	14

Response Text		
1	Remove much of the boiler plate around directors, shares etc.	Jul 14, 2010 8:18 PM

If not, what additional information would you need to perform your credit checks?

	Response Count
	4
answered question	**4**
skipped question	**11**

Response Text		
1	Intercompany liabilities & receivables	Jul 14, 2010 4:21 PM
2	Depends how restricted the published information became	Jul 14, 2010 4:29 PM
3	We vist our customers irrespective of financial statements.Financial statements are only part of the credit and not the only credit check.Good credit control involves knowing your customer.	Jul 15, 2010 8:11 AM
4	Balance sheet and trading information	Jul 19, 2010 8:16 AM

If not, what additional information would you need to perform your financial stability checks?	
	Response Count
	4
answered question	**4**
skipped question	**11**

Response Text		
1	Intercompany liabilities & receivables	Jul 14, 2010 4:21 PM
2	As above	Jul 14, 2010 4:29 PM
3	As 14	Jul 15, 2010 8:11 AM
4	Balance sheet and trading information	Jul 19, 2010 8:16 AM