

Dear Mr Conway,

Thanks for giving us the opportunity to present our views on the options for the accounting standards for listed companies and the IFRS regime in the UK after Brexit.

ACCA strongly supports the continuation of IFRS as global accounting standards for use by at least listed companies in the UK and the option to use them by other companies.

We think there may be an opportunity after Brexit to remove the anomaly that IFRS were compulsory only for the consolidated accounts of listed companies. The UK application of IFRS in future should be to all accounts of those companies. With the exception of that one change we would like to see the framework of the application of IFRS to remain as it is.

There are a number of options that are presented nevertheless by continuing that overall position.

UK adoption of IFRS

First in terms of endorsement of future IFRS there are options whether the UK should:

- Adopt IFRS as issued by the IASB without an endorsement process
- Adopt the EU-endorsed IFRS as at present, or
- Set up a UK endorsement system

In our view the adoption of IFRS as issued by the IASB should be the objective. This appears to have been UK policy over the period since adoption. We support this objective on the assumptions of the extensive due process carried out before new or amended standards are issued by them and on the governance of the IFRS Foundation with an independent standard setting board. In addition, new or amended standards are developed in a consistent way on a conceptual framework that has as its objective useful financial information for investors and creditors. The track record of the IASB has been that they have set appropriate standards.

We are not necessarily convinced that adopting IFRS as issued by the IASB would give the UK less influence with the IASB, than an endorsement system.

We recognise that there is the possibility that the assumptions above of due process, governance and appropriate standards might no longer hold. An endorsement mechanism would guard against the remote possibility that a highly inappropriate standard was produced and would provide for what has been dubbed the 'nuclear option'.

This was seen by some as being the purpose of the EU endorsement mechanism.

The second option would be, in effect, to continue as we are by stating that we would apply EU endorsed IFRS. This would be continuity and would ensure there was no divergence in future between the EU and the UK in this respect.

However, it would be an endorsement mechanism over which the UK would have little or no influence and would perpetuate for the UK what is arguably a slow system and an elaborate one where minor changes, for example the IFRS annual improvements and IFRIC interpretations, have to be subjected to an assessment of whether they are fit for use in Europe. There have also been cases where the EU political system has interfered with the endorsement of the standards and produced a less satisfactory outcome – the IAS39 carve-out and the allowance to reclassify instruments at the height of the financial crisis are cases in point. We would not favour this option.

We would favour therefore the third option, a UK endorsement system. However, it is paramount that such a system is designed to act promptly and proportionately, only addressing in depth issues serious enough to warrant a consideration of the ‘nuclear option’ (ie the rejection of the standard).

We set out below some of the features which we consider should be built into the design of this system. A UK endorsement system should:

- Consider all new standards or amendments to existing ones, together with the official interpretations (given that these ultimately have the same status in the IFRS system)
- Only have the options of accepting or rejecting a standard/interpretation, but not adding to, amending or deleting parts of it
- Run a parallel process to the IASB, so that there is minimal delay in endorsement and effective dates can be simultaneous¹
- Seek to influence the IASB’s work at an early stage as new standards are developed, ensuring fundamental issues are raised and addressed before a standard is completed.
- Take into account the IASB due process and governance², especially comments by UK constituents
- Have a system for fast tracking or waving through amendments that could not possibly constitute grounds for non-endorsement – this could for instance be an assembly/council of stakeholders who could only trigger an in-depth assessment if a super majority voted for it

¹ The parallel process is applied in Australia and New Zealand, and is considered to be effective and efficient.

² The AcSB’s approach of relying upon the quality of the IASB Board’s due process provides a light-touch endorsement process in Canada, even while reflecting the views of Canadian constituents.

UK influence in IASB's standard-setting process

Even with a UK endorsement mechanism in place, the interests of UK constituents need to be represented at an early stage of the standard-setting process, before exposure drafts are released.³

The size of the London Stock Exchange and the UK's banking and insurance industries makes the UK a crucial constituent for the IASB. After Brexit, it will be paramount that the UK steps up its institutional participation in IASB standard-setting and oversight processes. In particular, BEIS should make the case for UK participation on the IFRS Foundation Monitoring Board and the Accounting Standards Advisory Forum.

Criteria for UK endorsement of IFRS

For a UK endorsement mechanism there should be criteria for the assessment when required of a new or amended standard/interpretation. The design of the criteria for assessment should be based on the intention to fully adopt new standards, amendments to standards and interpretations.

There is the possibility to continue with the similar criteria as the EU currently. This would lead to non-endorsement if the change was contrary to the true and fair notion and did not result in financial information that was relevant, reliable, understandable and comparable. We would favour stopping there and not making reference to the public good which seems too indistinct a quality and seems to have given the EU mechanism the most difficulty to assess and the most scope for sectoral special pleading and lobbying. Similarly, the incremental improvement in IFRS should not feature as a criterium, as this could lead to carve-outs or the rejection of a standard, even as the fundamental quality of IFRS standards are not jeopardised.

We would not favour the endorsement body itself setting the criteria. Any endorsement body may have the incentive to act in its own interests by setting criteria that maximise its work and favour its existence. We see the endorsement mechanism as needing to be a legal process and so it needs to be entirely within a legal framework. As we have noted above our objective is that non-endorsement should only be invoked in extreme circumstances.

We would recommend that BEIS explores other criteria which would have the effect of endorsement except in extreme circumstances.

Government's role in the endorsement process

As stated above we see endorsement if needed as a legal process and so it should not be left entirely to an independent endorsement body for example.

³ EFRAG fulfils this important function on behalf of EU constituents.

An endorsement body could exercise delegated authority with the right of the government to overrule and block an IFRS/interpretation, within a strict timetable. This is a practical system but the right to overrule should include the right to pass an IFRS rejected by the endorsement body.

Also acceptable, and perhaps better, would be a parliamentary procedure to accept or reject the advice of the endorsement body within a strict time-table. This we understand to be the system in Australia and New Zealand and one which has functioned efficiently and effectively there.

An endorsement body

The FRC would appear to be a natural candidate for an endorsement body, given its current role in setting UK accounting standards and in regulating the accountancy profession. However, a national IFRS endorsement due process is arguably different from the national standard-setting process. This covers:

1. the prioritisation of IFRS amendments, determining which require a full endorsement due process and which may be waved through;
2. seeking input from a wide range of UK stakeholders as part of the full endorsement process in a transparent way;
3. making the decision whether or not a standard or amendment should be endorsed based on that input; and
4. either exercising a delegated power to endorse standards or providing endorsement advice to Parliament.

Care is needed to ensure that there is a robust and transparent due process that represents the views of a wide range of constituents including businesses, investors and auditors.

An alternative mechanism could be considered, whereby the prioritisation decision (point 1 above) is made by another body, representing the views of a wide range of UK constituents. The remaining assessment could then be carried out by the FRC.

ACCA would favour a due process in which the FRC, should it be the endorsement body, make endorsement advice to the Government or Parliament, which then has the power to adopt, or reject (in exceptional circumstances) that advice.⁴

⁴ A similar process exists in Australia. As delegated legislation, AASB standards are disallowable instruments (Para. 63, AASB Policies and Processes). Under section 42 of the Legislative Instruments Act 2003 a disallowable instrument may be disallowed by either House of the Parliament within a certain time after the instrument is tabled. To our knowledge, an AASB standard has never been disallowed or considered under the disallowable instrument provisions.

I would be pleased to engage further with you and provide further advice on this topic. Please do not hesitate to contact myself or my colleague Yen-pei Chen (yen-pei.chen@accaglobal.com, tel: 020 7059 5580) should you have any questions or comments on this letter.

Yours sincerely,

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