

13 September 2002

Hans Nailor
Accounting Standards Board
100 Grays Inn Road
London
WC1X 8AU



Dear Sir

FRED 26 Earnings per share

With a membership of 30,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales. London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to issuing bodies such as yourselves. The LSCA Technical Committee welcomes the opportunity to respond to the Accounting Standards Board ('the Board') regarding the revision to FRS 26, 'Earnings per share', based on the revised version of the International Accounting Standard of the same name published by the L&SB for comment at the same time in May 2002

We have reviewed the exposure draft and set out below a number of comments specifically relating to the proposed changes to current UK requirements and the extent to which the ASB should seek to persuade the IASB to change the proposed IAS. To this end, please find attached a copy of our response to the IASB on their ED for the revision of IAS 33 "Earnings per share"

We also have sent a letter to Mary Keegan to express our views on the general approach the ASB is undertaking towards convergence with international standards and this response should be read in the light of the views we have expressed in that letter

INFLUENCING THE IASB

- 1 Whilst most of our comments to the IASB arise as a result of changes now proposed to IAS 33, we acknowledge that some of our comments apply to provisions currently in IAS 33. Nevertheless, this is an improvements project and it would not be appropriate for us to ignore the issues.

2. Our concerns are significant ones and we urge the ASB to press the IASB very hard to accept the need for revisions in these areas.
3. Should the L&SB not take on board any of the changes outlined, in the interests of international harmonisation, we would not wish the ASB to reflect the changes as UK specific paragraphs. The UK and international standards should be identical.

RESPONSES TO SPECIFIC ASB QUESTIONS

- (i) *Do you agree with the proposal to issue a new UK standard on earnings per share to replace FRS 14, as soon as the new IAS 33 is approved by the IASB?*
4. Yes.
- (ii) *Do you believe that the ASB should consider any transitional arrangements?*
5. No.
- (ii) *Are there any aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 33?*
6. The issues that we wish the ASB to raise with the IASB are those set out in our letter to the IASB.

OTHER UK ISSUES

Scope

- 7 Paragraph 1 of the draft standard should state that the standard applies to financial statements intended to give a true and fair view. such a statement has been added as a UK specific change to the other FREDs issued as part of the convergence project and applies equally to earnings per share

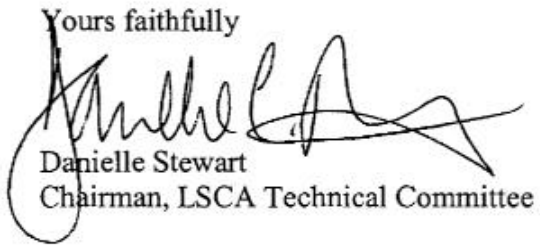
Employee share schemes

8. Paragraph 18A proposes, as a UK specific paragraph, that shares held by an ESOP trust and reflected in a company's balance sheet as assets are to be treated for eps purposes as though they had been cancelled
- 9 We concur with this treatment but recommend that the paragraph be added into UITF 13 In this way the UK standard could be identical to its international equivalent and yet the guidance be retained The need for the guidance falls away once UITF 13 is no longer applicable: Following our recommendation means that the guidance will automatically be withdrawn when UITF 13 is withdrawn.
10. We note that the useful guidance in FRS 14 on the dilutive effect of employee share schemes will not be provided in the new standard. It might be helpful to add this guidance, for the time being, to UITF Abstract 17, Employee share

schemes'. The guidance on the dilutive effect of share schemes, as currently drafted, is applicable only so long as UITF 17 is extant. Thus, adding the guidance into UITF 17 itself would enable the UK standard to be identical to its international equivalent and ensure that the guidance will be automatically withdrawn when UITF 17 is withdrawn.

If there are any matters arising from this letter you would like to discuss, please do not hesitate to contact Danielle Stewart on 020 7731 6163.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Danielle Stewart', with a large, stylized flourish extending from the end of the signature.

Danielle Stewart
Chairman, LSCA Technical Committee



13 September 2002

Hans Nailor
Accounting Standards Board
100 Gray's Inn Road
London
WC1X 8AU

Dear Sir

FRED 25 Related Party Disclosures

With a membership of 30,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales. London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to issuing bodies such as yourselves. The LSCA Technical Committee welcomes the opportunity to respond to the Accounting Standards Board (the Board') regarding the revision to FRS 8, Related Party Disclosures, based on the revised version of the International Accounting Standard of the same name published by the IASB for comment at the same time in May 2002.

We have reviewed the exposure draft and set out below a number of comments specifically relating to the proposed changes to current K require4ents and the extent to which the ASB should seek to persuade ti4 IASB to change the [proposed] IAS. To this end, please find attached a copy of out response to the IASB of their ED for the revision of IAS 24

We also have sent a letter to Mary Keegan to express our views on the general approach the ASB is undertaking towards convergence with international standards and this response should be read in the light of the views we have expressed in that letter.

INFLUENCING THE IASB

1 Addressing each of the main issues in our letter to the IASB m turn

- (a) **Materiality** we recognise that this is a problematic issue It is not yet clear whether the exclusion of the relevant paragraph from the IASB Preface will be dealt with in the rubric to each standard or by inclusion of a paragraph in IAS 1 or IAS 8 when revised We have taken the opportunity

to point out to the IASB that they need to address it somewhere or it will keep getting raised for each new or revised standard. It is less clear whether there is any chance of the FRS 8 paragraph 20 approach being taken up; as demonstrated in our letter, we would support any moves on your part to encourage such a move within the IAS.

- (b) **Exemptions for subsidiaries:** as you can see, we have several concerns with the IASB drafting and intentions behind the exemption. It seems to us that the practical issue of publishing each exempt subsidiary's accounts rather than making sure the group accounts are available, as with the UK exemption, is fairly fundamental, as is the issue of the practicality of allowing only 100% subsidiaries to be exempt.
- (c) **Management compensation:** we do not see that the definitional problem identified by the IASB is insuperable in that IAS 19's definition of employee compensation and the in-built definition in the IAS draft of key management personnel should, in combination, deal with the issue. We are well served by legal and listing rules requiring such disclosures in the UK; however, we cannot be complacent, given the risk of losing these, eg if the relevant requirements of the listing rules are lost to a European prospectus directive that does not require them.
- (d) **Names of transacting related parties:** we find the loss of the UK requirement to disclose names as particularly unfortunate, as it represents such a strong safeguard for users and auditors. The practical experience of our Committee would suggest that the naming requirement is the one disclosure that is resisted most strongly in circumstances where the reporting entity may have something to hide. In fact, as suggested in our letter to the IASB, we would actually go further than the current UK requirements. Moreover, this is an issue where disclosure is just as relevant for SMEs, although perhaps for different reasons than for large/public companies. We find it hard to see how users are served by the exclusion of the name from the list of minimum disclosures paragraph 14 of the draft standard
- (e) **Controlling parties** we support disclosure of the identity of the controlling party and ultimate controlling party and we welcome the suggested additions to the standard by ASM in the form of paragraphs 13A and 13B. However, most unfortunately, we consider that the case for diverging from IAS is not made convincingly in the FRED (paragraph 8 page 8, and paragraph 13B page 21). This appears to be more of an assertion than a careful reasoning for use of such a 'nuclear' option of diverging from the IAS text.

- 2 We think we have made our preferences clear in all the above cases and would encourage the ASB to 'fight the good fight' on our behalf. In particular, we would wish ASB to lobby strongly in respect of (d) and (e) above. However, if the changes to the proposed international standard requested by the ASB are not made, then we would support the adoption of the final IAS text in the UK in the interests of convergence. We cannot support more onerous standards being applied to non-listed companies than to listed companies.

OTHER UK ISSUES

3. One further issue has come to our attention that relates entirely to the UK. At present, paragraph 165 of the Charities SORP contains a relaxation of the requirements of FRS 8 to name transacting related parties. The experience of our members suggests that, in particular in relation to paragraph 165(a) (donations from related parties, who often wish to remain anonymous), this relaxation is considered not to be applicable to charitable companies, on the grounds that the SORP cannot override accounting standards that are applied through the Companies Act. Obviously, if the proposals in FRED 25 come into force as they stand, the problem will disappear as there will be no overt requirement to name transacting related parties. However, if the new standard does, in the end, require disclosure of the names of transacting related parties, it does not seem right that this anomalous situation should continue. In our view, in order to provide a level playing field for unincorporated and incorporated charities, the UK standard should state the relaxation of rules for charities, as was done in FRS 15 for donated assets, thus giving effective 'statutory' backing to the approach in the SORP.

ANSWERS TO QUESTIONS

- (i) *Do you agree with the proposal to issue a new standard in the UK on related party disclosures, once the new IAS 24 is approved by the IASB?*

Yes

- (ii) *Do you believe that the ASB should consider any transitional arrangements?*

No.

- (iii) *Do you believe that an accounting standard should require disclosure of the name of a controlling party and, if different that of the ultimate controlling party? If the new IAS 24 does not require disclosure do you believe that a new UK standard should require this disclosure as set out in paragraphs 13A and 13B of the [draft] FRS?*

See paragraphs 1(e) and 2 above

- (iv) *Do you believe that an accounting standard should require disclosure of the names of transacting related parties*

See paragraphs 1(d) and 2 above

- (v) *Should the definition of related parties specifically refer to shadow directors should it also refer to persons acting in concert?*

See paragraph 14 of our response to the IASB re shadow directors and paragraph 22 of that response re persons acting in concert. We believe that subject to the change we have suggested (i.e. substitution of QR 'for AND) shadow directors will be caught under the definition of key management personnel.

- (vi) *Do you believe 'that an accounting standard should specify that disclosure is required of material related party transactions and give more guidance on materiality in the 'context of such transactions?*

Yes, see above.

- (vii) *Are there any other aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 24?*

We believe our views on various matters are clear from the above, including the relative importance we attach to each.

If there are any matters arising from this letter you would like to discuss, please do not hesitate to contact Danielle Stewart on 020 7731 6163.

Yours faithfully



Danielle Stewart
Chairman, LSCA Technical Committee