By email to: UKEndorsementBoard@endorsement-board.uk
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18 January 2024

Dear Sir/Madam

Draft Regulatory Strategy 2024/25

We appreciate the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on the UKEB's draft Regulatory Strategy 2024/25.

We agree that it is appropriate for the UKEB's proposed workplan to include not only adoption projects but also a mix of influencing and research projects and ongoing stakeholder engagement. We observed in our response to last year's draft regulatory strategy that the UKEB's 'to-do list' was "ambitious and may be challenging given the current level of resource available to the UKEB". It is therefore disappointing, but not surprising, that the draft Regulatory Strategy 2024/25 identifies some projects that will have to be deferred given the resources and time that are currently available. In that context, we agree with the selection of projects that are to be deferred until such time as they are added to the IASB's active agenda. We also believe that it would be inappropriate to add any further research projects at the current time. If research projects were to be added, some other activity would need to be suspended, and it is unclear what that might be. However, we do believe that one of the adoption projects planned for the coming year might require more effort than expected, and this time and resource would need to be found given the UKEB's statutory responsibilities.

Subsidiaries without public accountability

The proposed workplan contains three adoption projects: Primary Financial Statements; Subsidiaries Without Public Accountability; and Amendments to the Classification and Measurement of Financial Instruments. The first of these projects is expected to require a 'significant workload', and we agree with that assessment, while the others are both ranked as requiring 'moderate' workload. In our view, this understates the work that will likely be required properly to assess Subsidiaries Without Public Accountability (hereafter referred to as 'IFRS 19', which we understand will be the standard's number, once issued).

As a matter of principle, we support global financial reporting standards and believe that the use of IFRS Accounting Standards ('IFRS') as a common language has contributed to the strength of the capital markets. We are of the view that IFRS are helpful for listed companies in the UK as they improve quality, comparability and reliability of financial information. Regional modifications to IFRS may result in a lack of global comparability and could increase confusion to users of financial statements. We continue to support

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globally consistent standards and encourage endorsement of IFRS, without any regional modifications and carve-outs where possible.

However, by its nature, these considerations will not apply in the same way to a standard that might only be used by subsidiaries without public accountability. Accordingly, to assess IFRS 19, it will be necessary to approach the examination of the advantages and disadvantages of endorsement differently.

One disadvantage will be to add extra complexity to the range of choices that some UK companies already have for some types of reporting. While IFRS 19 is intended to fulfil a similar purpose to FRS 101, its scope will be different, which might cause confusion. However, non-endorsement of an IFRS would seem out of line with the UK's general stance towards the work of the IASB.

If the EU were to endorse IFRS 19, problems would follow if the UK did not. For example, for a foreign IFRS-using group, lack of UK endorsement of IFRS 19 would prevent its UK subsidiaries from reporting on a basis possibly chosen for its subsidiaries in countries where IFRS 19 would be allowed (e.g. Ireland, Netherlands, Luxembourg, etc). That might be costly.

A similar point applies to a UK group with international subsidiaries. The UK and Irish subsidiaries can currently use FRS 101 but the Dutch and Luxembourg subsidiaries cannot. So, it might be convenient if all those subsidiaries could use IFRS 19. This point is especially relevant in groups that use a shared-services centre for the preparation of the statutory accounts of many European subsidiaries. They could then have a standardised list of disclosures.

However, there is a technical problem to be assessed, in that, unlike FRS 101, IFRS 19 will not be available for parent company accounts.

This has a knock-on effect because section 407 of the Companies Act does not allow a UK subsidiary to apply a financial reporting framework different from that used in the parent's accounts, unless there are 'good reasons' (section 407(1)) or the group and the parent both use IFRS (section 407(5)). Therefore, assuming IFRS 19 is endorsed in the UK:

- If a UK parent (and group) applies IFRS, a UK subsidiary can apply IFRS, IFRS 19, FRS 101 or FRS 102.

- If a UK parent applies FRS 101 (or FRS 102), a UK subsidiary cannot apply IFRS or IFRS 19 unless there are good reasons for doing so.

The second of these scenarios would restrict the availability of IFRS 19 for UK subsidiaries within a UK group, compared to it being available for UK subsidiaries within a group with an overseas parent.

The long term solution could be to change section 407 of the Act in relation to FRS 101. We do not believe that this would flout the Act's intention (related to prohibiting mixed recognition/measurement in a group) if a parent applies FRS 101 and a subsidiary applies IFRS 19. In the short run, it might be appropriate to ask the

Financial Reporting Council to add a further ‘interpretation’ to FRS 100, explaining that IFRS 19 can be applied by a UK subsidiary if a UK parent applies FRS 101 because this would satisfy the Act’s exception in section 407(1), the ‘good reasons’ being that:

- the legislators did not know about IFRS 19 when section 407 was drafted;
- it fits the perceived intentions of section 407;
- it is de-regulatory; and
- it resolves an issue specific to UK parents.

A proper assessment of IFRS 19 would also require a detailed comparison with FRS 101. This assessment will be complex. Both standards take a standard-by-standard approach to the existing list of IFRS disclosure requirements. However, FRS 101 is piecemeal, allowing large exemptions from a few standards but not mentioning other standards at all. By contrast, IFRS 19 considers all the standards, but sometimes allows only a few exemptions. For several standards (e.g. IFRSs 15 and 16), both FRS 101 and IFRS 19 have exemptions, but they are different. FRS 101 provides a list of exemptions rather than a list of required disclosures. It assumes a starting point of IFRS, but at least that makes the list of exemptions clear. However, one then has to work out, by subtraction, which disclosures are required. By contrast, IFRS 19 is a list of required disclosures, so it is difficult to work out what the exemptions are in comparison to full IFRS (and therefore compared to FRS 101). IFRS 19 does have an Appendix which lists disapplied paragraphs, but many of them are approximately replaced by new paragraphs in IFRS 19.

All in all, the decision whether to endorse IFRS 19 is important and we believe it will require significant, not moderate, work by the staff and the Board.

Yours faithfully

PricewaterhouseCoopers LLP