# Splitting Accountability Hairs: Anomalies in the Adaptation of IFRS for SMEs in the UK and Ireland

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## Abstract

Recent years have witnessed a significant shift in the financial reporting frameworks available in the UK and Ireland affecting entities of all sizes with the Financial Reporting Council issuing three financial reporting standards replacing the extant UK GAAP. This paper reports the results of a content analysis of 151 comment letters sent to the standard-setter in response to its policy proposal. The paper explains why the standard-setter stepped back from its controversial proposal to enforce IFRS for SMEs based on the absence of public accountability. Additionally, the standard-setter addressed all concerns positively apart from two, representing anomalies. First, despite being opposed by the majority of the respondents, the standard-setter published a new framework for wholly-owned subsidiaries of listed companies allowing them to make substantially less disclosure. Second, the standard-setter is yet to respond to the call by the accounting profession and the Not-for-profit sector to publish a sector-specific framework.

**Keywords:**
IFRS for SMEs, Accounting Standards, Not for Profit, Lobbying, Standard Setting, Public Accountability.

## 1. Introduction

This study examines comment letters sent to the UK standard-setter in response to its policy proposal – *The Future of UK GAAP*. The overall objective of the study is to improve awareness and understanding of the use of comment letters sent to local and international standard-setters addressing a common financial reporting issue. With the ongoing globalisation of capital markets, there is consensus that corporate disclosure should be comparable worldwide, with ongoing promulgation of standards and initiatives aimed at achieving this continuing demand for several decades (Holder et al., 2013). The International Accounting Standards Board (IASB) devoted considerable time and resources to promoting a common reporting language for large and listed entities (Kirsch, 2006; Camfferman and Zeff, 2007). However, along with setting standards for large and listed entities, it inherited the responsibility for setting a set of standard for Small and Medium-sized entities (SMEs) from its predecessor, the International Accounting Standards Committee (IASC). The discussion paper for International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SME) was published in 2004 and after five years of further consultation, the first ever international accounting framework for SMEs was published in July 2009. Soon after, the Accounting Standard Board (ASB) in the UK expressed its intention to replace the UK GAAP equivalent with IFRS for SMEs. The board claimed a new set of UK GAAP based on IFRS for SMEs would reduce the burden associated with complying with myriad reporting requirements (ASB, 2009). In August 2009, it issued its policy proposal – *The Future of UK GAAP*. The document recommended a three-tier approach to ensuring UK GAAP converged with IFRS as follows:

1. Tier 1: publicly accountable entities would apply IFRS as adopted by the EU;
2. Tier 2: all other UK entities other than those who were eligible to apply the Financial Reporting Standard for Smaller Entities (FRSSE), would apply the IFRS for SMEs; and
3. Tier 3: small entities, which could choose to continue to apply the FRSSE (ASB, 2009).

Entities in lower tiers could always move to upper tiers if they wished. Using the aforementioned tier system as a base, the board then requested feedback on 16 different questions from interested parties. Based on the comment letters received in response to the policy proposal and based on further consultations, the Financial Reporting Council (FRC) issued the following three financial reporting standards during 2012-13, replacing extant UK GAAP:

1) FRS 100: Application of Financial Reporting Requirements; (not a standard itself, but sets out the financial reporting framework applicable for entities preparing financial statements in the UK and Ireland);
2) FRS 101: Reduced Disclosure Framework (which is IFRS but with reduced disclosure requirements); and
3) FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (which is based on IFRS for SMEs[1]).

In addition, the standard-setter replaced the framework for smaller entities (FRSSE 2008) with a new FRSSE 2013. This fundamental reform triggered by the incorporation of IFRS for SMEs into the UK GAAP represented the most significant change to the financial reporting framework available in the UK since the decision to adopt IFRS in 2002. However, the

[1] However, significant changes were made to IFRS for SMEs, partly due to conflict with the requirements of the European Accounting Directive (FRC, 2015).

rationale underpinning these changes received very little academic attention. This paper is an endeavour to fill that gap in the extant literature. In order to explain the UK standard-setter's recent response, the researchers have analysed 151 comment letters sent to the Accounting Standard Board (ASB)[2] in 2009 in response to its policy proposal –*The future of UK GAAP*. The results of the content analysis of these comment letters are compared with the recent changes and the study then questions whether recent changes are consistent with the respondents' views. The analysis highlights two issues that appear to be inconsistent with the participants' views, as the standard-setter published a new framework for wholly-owned subsidiaries of listed companies allowing them to make substantially less disclosure than required by IFRS for SMEs and IFRS. In addition, the standard-setter has not yet responded to the call by the accounting profession and the Not-for-profit (NFP) sector to publish a new framework to meet that sector's needs. The results also show that the adoption and implementation of IFRS for SMEs based on non-public accountability, as defined by the IASB, will be very difficult to achieve. This is due to the fact that there is no de minimis concession (i.e., no exemption) within the definition for small but publicly accountable entities, many of which may fall under the scope of full IFRS. Countries should be aware of confrontations it may face from large listed entities for a reduced disclosure framework, from the not-for-profit sector for a separate stand-alone standard, and from other entities who are deemed to be publicly accountable under the IASB definition but are unable to bear the cost of compliance with full IFRS.

At the outset this research attempted to focus on two key objectives: (i) exploring the level of agreement with the ASB's proposals; and (ii) exploring the level of diversity in terms of the views expressed via the comment letters. However, although it was possible to answer these two research questions, further interrogation uncovered an interesting dilemma for standard-setters in terms of the way they define public accountability. Thus, the paper makes an unintended but necessary contribution to the extant accountability literature in terms of the importance of shared meanings when issuing accounting standards.

A key contribution of this study relates to the myriad conceptions of public accountability understood by accounting standard-setting stakeholders. The organisational studies literature has long espoused the need for shared meanings and conceptual precision in terms of the use of "scientific concept(s)" (Kaplan, 1964, p. 46) and definitions (Bigley and Pearce, 1998). Indeed, accountability has long been viewed as "a slippery, ambiguous term" (Levaggi, 1995, p. 286), whose precise focus has been the subject of much debate (Stewart, 1984; Gray, 1992; Sinclair, 1995; Gray et al., 1996; Munro and Hatherly, 1993; Roberts, 1996; Willmott, 1996; Dhanani and Connolly, 2012; Agyemang et al., 2017; Roberts, 2017; Bebbington et al., 2019; Dillard and Vinnari, 2019). Coming to a cognate, agreed-upon meaning of public accountability is therefore of vital importance in ensuring that all stakeholders engaged in standard setting understand their reporting responsibilities.

This study also provides important feedback to jurisdictions that are in the process of adopting IFRS for SMEs or considering IFRS for SMEs as a suitable framework. The extent of the changes made in the UK and Ireland to accommodate IFRS for SMEs, including the development of a new framework for listed entities and the call for a new framework for charities should be considered in their evaluation. The study also warns that implementation of IFRS for SMEs based on public accountability (however defined) is worth a careful

[2] Following a restructuring, the Accounting Standards Board (ASB) ceased to exist and was replaced with the Accounting Committee (AC). In this study 'UK standard-setter' or 'the board' refers to the FRC, the AC and its predecessor the ASB.

consideration as doing so may have an unintended consequence of bringing some entities under the scope of full IFRS, especially entities that will not be able to bear the burden of this voluminous framework.

Furthermore, this paper argues that classifying stakeholders of IFRS for SMEs between users and preparers may be an oversimplification owing to the low participation by users in the standard-setting process, and the myriad preparer groups that expressed interests in IFRS for SMEs ranging from large listed entities to very small charities. Since preparers' needs and interests vary widely, they should be treated as a heterogeneous group. This study is an endeavour to address these research gaps. In particular, this study investigates a policy proposal that attracted interest from various groups, including charities, SMEs, large listed entities, and entities with a complex structure (e.g. investment funds, housing association etc.) due to the perceived impact of the proposals on these groups. Therefore, it provided an opportunity to examine the participation of a wide range of groups with divergent interests. Such a group-wide analysis aimed to investigate UK standard-setter's response to concerns raised by these groups and to shed some lights on recent changes to the financial reporting frameworks available in the UK and Ireland. This paper contributes to the literature by providing evidence that the implementation of IFRS for SMEs based on public accountability will be a significant challenge for standard-setters. Furthermore, to the best of the authors' knowledge, this is the first comprehensive study that has analysed 151 comment letters sent to the UK standard-setters in order to illuminate the causes of recent changes triggered by the publication of IFRS for SMEs. Therefore, findings of this study would be of interest to national and international accounting standard-setters taking into account that the overall objective of this study is to improve the understanding of the use of comment letters to influence national and international standard-setters addressing a common financial reporting issue.

The paper continues with Section 2 where the political nature of accounting standard-setting is discussed. The need for differential financial reporting framework for SMEs is discussed in Section 3 before moving on to discuss the publication of IFRS for SMEs in Section 4. The ASB's proposals are discussed in Section 5; these help in developing the research questions explored in this paper while Section 6 describes the research method adopted to answer these research questions. Section 7 presents the findings of the study and Section 8 draws some conclusions.

## 2. The Political Nature of Standard-Setting

Two primary theoretical approaches to exploring the accounting standard-setting process have emerged in the extant literature of late. The first school of thought views the standard-setting process as an inherently political process, affording various groups the opportunity to lobby and make their voices heard (Holder et al., 2013). Studies of this nature typically adopt a rational choice model (essentially a cost-benefit approach) as suggested by Sutton (1984) or reflect the political costs hypothesis of positive accounting theory suggested by Watts and Zimmerman (1986). The second framework is based around a systems notion of a political economy of accounting which suggests that the accounting standard-setting process is designed to defend the interests of a few powerful groups within society (Cooper and Sherer, 1984; Sikka, 2001). Empirical evidence in this regard is inconclusive with one stream observing the dominance of a particular group in the standard-setting process and questioning the legitimacy of the standard-setter (e.g. Burlaud and Colasse, 2011), while another stream of research ruled out such bias (e.g. Danjou and Walton, 2012) or reported any alleged bias to be statistically insignificant (e.g. Bamber and McMeeking, 2016). To date, most research drawing on these two theoretical approaches has focused primarily on large listed entities and has investigated the standard-setting process in terms of how it affects a particular group (e.g. Tandy and Wilburn, 1996; Georgiou, 2010) or multiple groups (e.g. Chatham et al., 2010).

Although the contemporary accounting literature has paid attention to accounting standard-setting of large listed entities, the literature on the adoption and use of the IFRS for SMEs in various jurisdictions is beginning to grow. However, despite prior research recording a low level of participation of users of financial statements in the standard-setting process (Tandy and Wilburn, 1992; Weetman et al., 1996; Durocher et al., 2007; Georgiou, 2010; and Jorissen et al., 2012), the extant literature on IFRS for SMEs has investigated the participation of users and preparers (Quagli and Paoloni, 2012; Albu et al., 2013) and, not surprisingly, reported a low level of engagement by users. Although various interested groups take part in the standard-setting process, not all of them are successful in making their voices heard. Several authors like Cooper and Sherer, (1984), Sikka, (2001) and Burlaud and Colasse, (2011) argued that only powerful political forces were able to influence accounting standard-setters. In addition, authors including McLeay et al., (2000) and Cortese et al., (2010) warned that lobbying by the accounting profession was supportive of regulatory changes that would maximise income. Findings from this stream of research have raised some empirical questions that beg further exploration. For example, studies that sought the perceptions of preparers and users about the adoption of IFRS for SMEs reported that these two groups held conflicting views about the contribution of IFRS for SMEs (Quagli and Paoloni, 2012; Albu et al., 2013), but it is not known which lobbying group has been successful in furthering their interests. In other words, exploration of how the standard-setters have responded to conflicting attitudes towards IFRS for SMEs has not been investigated to date.

## 3. The Need for a Differential Financial Reporting Framework

UK SMEs can be considered the backbone of the British economy representing 99.9% of total private sector businesses and accounting for 60% of total private sector employment (Department for Business Innovation & Skills (BIS, 2017)). Historically, this core part of the economy has been enjoying relaxed regulations[3], and in common with most other countries, UK regulators use quantitative criteria to underpin the regulatory requirements of SMEs (Barker and Noonan 1995; Sian and Roberts, 2006)[4]. A survey of 5,115 SMEs in 2014 by the BIS found that only 6% SMEs owners identified regulations as an obstacle to business success which can be compared with 7% in 2010 and 8% in 2012 (BIS, 2012; 2015)[5]. With regard to financial reporting, the regulatory requirements related to entities in the UK and Ireland are underpinned by the perceived information needs of users, public interest, the cost of compliance, and the way entities operate (FRC, 2012). Nevertheless, the information needs of the users of SMEs' financial statements could be different from the information needs of the users of large and listed entities and accounting standards applicable to large entities may not be applicable to SMEs because of the nature of transactions they undertake. There has been a dearth of research in this regard, especially about the accounting issues faced by entities at the

[3] Due to the UK government's emphasis on deregulation (El-Agraa, 1997).

[4] For example, statutory audit exemption for small companies in the UK based on quantitative threshold (Collis, 2012).

[5] For example, see Chittenden et al., (2005) who argued that small firms are disproportionately exposed to the costs of complying with regulations. However, Kitching et al., (2015) warned that the impact of regulations on small businesses is often misconceived in the literature as perception surveys like BIS small business perceptions survey are based on what respondents think about regulations rather how regulations affect them.

smaller end of the spectrum. One of the earliest studies by Barker and Noonan (1995) provided evidence from Ireland that small companies confronted most accounting issues faced by large and medium companies apart from complex financial instruments and group accounts. In terms of users of SMEs financial statement, an International Federation of Accountants (IFAC) paper authored by Sian and Roberts (2006) identified tax authorities, venture capitalists, business angels and grant-awarding bodies as key users of SMEs' accounts, in addition to banks and directors (including owners). More recently, Gassen (2017) identified 13 user groups, including statistical agencies, competitors, employees, media and rating agencies. However, the IASB conceptual framework that aids standard-setting for both IFRS for SMEs and full IFRS identified existing and potential investors and creditors as primary users of financial statements (IASB, 2010). The exclusion of many user groups from the conceptual framework was greeted with extreme criticism. For example, Murphy and O'Connell (2013) warned that the exclusion of groups other than the capital providers as primary users of financial statements would have profound implications on the way preparers and standard-setters interact with the wider accounting audience. In particular, they argued that the excluded groups would no longer be seen as primary users of financial statements by standard-setters and preparers (Murphy and O'Connell 2013).

Although the IASB, in its conceptual framework, assumed that the primary users of financial statements were the same for all entities regardless of their size, the board acknowledged that full IFRS was burdensome for many SMEs and full IFRS covered wider issues that SMEs did not encounter (IFRS Foundation, 2016). Indeed, the need for a separate and stand-alone financial reporting framework for SMEs was highlighted in several studies (e.g. Kilic and Uyar, 2015; Collis et al., 2017; Kirwan and Pierce, 2017). Furthermore, studies that investigated SMEs' reporting have highlighted the reluctance of these organisations to apply full IFRS (Haller, 2002) and whilst many countries have adopted IFRS for listed entities, they are reluctant to adopt this framework for SMEs (Fearnley and Hines, 2007; Tyrrall et al., 2007). In this regard, Haller (2002) argued that the benefits of adoption of IASs by SMEs would not outweigh the cost of implementing these standards. As predicted by Haller (2002), Carini et al., (2011) reported that of the 880 Italian medium companies that the study investigated after IFRS adoption across the EU, only 33 adopted IFRS and the rest continued using GAAP. Similarly, a study by the Institute of Chartered Accountant in England and Wales (ICAEW) in 2007 looked into the companies that were applying IFRS after the EU had adopted the standards and observed the reluctance of the medium-sized entities to apply this framework (ICAEW, 2007). A key question of why companies favoured local GAAP over relatively simplified IFRS arises. Di Pietra et al., (2008) pointed out that the reason could be the traditional linkage between European local GAAPs with the taxation system.

## 4. Publication and Acceptance of IFRS for SMEs

IFRS for SMEs was not an initiative taken by the IASB, rather it was a brought-forward task from its predecessor the IASC (IFRS Foundation, 2016). An initial discussion paper was first published in June 2004 with the intention to publish a new set of standards (IFRS Foundation, 2016). A total of 121 interested parties commented on the discussion papers with mixed opinions expressed. Many respondents criticised the move to develop a new set of standards and believed that full IFRS should be seen as suitable for all entities. On the other hand, many participants welcomed the step and felt it was timely and necessary to free the SMEs from the burden of full IFRS and local GAAP. The European Commission (EC) appreciated the initiative to prepare a new set of standards but at the same time criticised the IASB's claim that the new standards would make the transition to full IFRS easier (EC, 2004). Initially, the IASB was committed to publishing the standards without making any changes to recognition and measurement requirements contained in the full IFRS. However, comments on the discussion papers compelled the IASB to make significant changes (Ram and Newberry, 2013)[6]. In April 2005, the IASB published a staff questionnaire aimed at identifying how modifications could be made to recognition and measurement principles in IFRS for use in IFRS for SMEs (IASB, 2005). The standard-setter also pointed out that although the proposed IFRS for SMEs would be targeted at non-publicly accountable entities, it would not develop detailed guidelines on what entities should or should not be eligible for IFRS for SMEs and it would be up to national jurisdictions to make such decisions. In February 2007, an exposure draft on the proposed IFRS for SMEs was published. The exposure draft revealed that IFRS for SMEs would focus on types of transactions, events, and conditions usually faced by SMEs with about 50 employees and that the changes made to the measurement and recognition principles of IFRS were based on cost-benefit considerations (IASB, 2007a). In particular, the board proposed recognition and measurement simplifications to the following areas: (i) financial instruments; (ii) goodwill impairment; (iii) research and development expenses; (iv) cost method for associates and joint ventures; (v) income taxes - 'timing differences plus' approach; (vi) less fair value for agriculture; (vii) employee benefits - defined benefit plans; (viii) share-based payment; (ix) leases; and (x) transition to the IFRS for SMEs (IASB, 2007b). It was a significant step back from the board's earlier ambition of not making any changes to the principles contained within full IFRS. Perera and Chand (2015) alleged that users' views were not sought when these simplifications were incorporated in the IFRS for SMEs. In response to the exposure draft, the UK and Irish standard-setter, the ASB, criticised the title 'IFRS for SMEs' itself. Although the ASB failed to suggest an alternative, on balance it preferred 'IFRS for Non-Publicly Accountable Entities' (ASB, 2007b). While this national standard-setter praised its international counterpart for achieving significant simplification to full IFRS, it questioned the approach to base the SME standard on Income taxes: IAS 12 - Income Taxes. Finally, in 2009, IFRS for SMEs was issued with the same title as the exposure draft. The newly-published IFRS for SMEs was a stand-alone standard that was 90% shorter (240 pages) than the full IFRS and required 90% fewer disclosures than full IFRS (IASB, 2016). As far as the cost of compliance was concerned, the IASB claimed that IFRS for SMEs would meet users' needs with a low cost to the preparers (IFRS Foundation, 2016).

The IASB has been successful in promoting the standards globally and to date 86 jurisdictions require, or permit, IFRS for SMEs and another nine jurisdictions are considering requiring or permitting this framework (IFRS Foundation, 2020)[7]. Gassen (2017) argued that regardless of its acceptance, the publication of IFRS for SMEs influenced national regulatory reforms in many countries. Kaya and Koch (2015) investigated the countries that adopted IFRS for SMEs and concluded that countries with weak governance and a low capability of developing their own GAAP were more likely to adopt this framework. Furthermore, the likelihood of adoption increases if the country previously adopted IFRS; probably as an attempt to reduce the burden on SMEs (Kaya and Koch, 2015). However, some countries like Australia were of the view that the IFRS for SMEs was complex for these firms (AASB, 2010). In the same vein, the EC

[6] It was alleged that these changes led to confusion among preparers of SMEs accounts and created obstacles in implementation (Uyar and Güngörmüş, 2012).
[7] Based on the 166 countries that the IASB surveyed.

was of the view that IFRS for SMEs would not serve the objective of reducing administrative burden for SMEs in Europe (EC, 2011)[8]. However, Albu et al., (2013) investigated the views of different stakeholders in the Czech Republic, Hungary, Romania, and Turkey and found more support for IFRS for SMEs than suggested by the EC consultation. Their study also found that preparers and users were quite divided on their opinion about the way IFRS for SMEs could be implemented in these countries. In particular, preparers preferred convergence as opposed to full adoption by users. Similarly, Quagli and Paoloni (2012) analysed responses to the *'Questionnaire on the public consultation of the IFRS for SMEs'* prepared by the EC. Their findings suggest that preparers expressed strong opposition to the IFRS for SMEs while users were broadly in favour of it. However, there is a lack of research on the consultations that were carried out at country level across the EU. The public consultation carried out in the UK is worth examining for several reasons. First, the UK is one of the few countries that developed a separate framework for smaller entities (i.e. FRSSE), and the IASB was influenced by this framework when developing IFRS for SMEs (Collis et al., 2017). Second, it is noteworthy that not all countries adopted IFRS for SMEs as published by the IASB; seven jurisdictions made minor modifications to IFRS for SMEs and only one jurisdiction, the UK and Ireland, made significant changes (IASB, 2016)[9]. Therefore, an investigation of the public consultation carried by the UK standard-setter will provide new insights on the reasons why the UK and Ireland are the only jurisdictions that made significant changes to the IFRS for SMEs. Finally, although prior research that investigated the perceptions of various groups about the IFRS for SMEs has reported a substantial diversity among respondents, it is not known which group has been successful in the lobbying process. The public consultation carried out in the UK attracted attention from several groups and it is worth examining which group has had a significant influence on the recent changes that have been made to the financial reporting frameworks available in the UK and Ireland.

## 5. Research Questions

It is worth noting here that recent changes to the financial reporting frameworks available in the UK and Ireland are the result of several public consultations and the implementation of the EU directive. The UK standard-setter expressed its intention to adopt IFRS for SMEs in 2007, right after the IFRS for SMEs exposure draft was published by the IASB (ASB, 2007a). The consultation paper contained only five questions mostly covering possible replacement of FRSSE with IFRS for SMEs. Similarly, the final consultation on *'UK Implementation of the EU Accounting Directive'* yielded only 33 comment letters (BIS, 2014). However, more comprehensive proposals were suggested in 2009 after IFRS for SMEs was finalised and published, through its *'Policy Proposal: The Future of UK GAAP'* which attracted 154 comment letters. Therefore, this study solely focuses on the *'Policy Proposal: The Future of UK GAAP'*.

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[8] It is worth noting here that IFRS for SMEs has not been popular among European countries. As of March 2020, only seven European countries, namely Bosnia and Herzegovina, Ireland, Macedonia, Serbia, Switzerland, Ukraine and United Kingdom require or permit IFRS for SMEs and only two countries (Albania and Norway) are considering adopting it (IFRS Foundation, 2020).

[9] In this context, the UK and Ireland are considered as one jurisdiction as both countries operate under the auspices of a common accounting standard-setter. Appendix II of FRS 102 provides a list of significant differences between FRS 102 and the IFRS for SMEs. According to the FRC, no significant changes were made to notes to the accounts. However, some examples of areas where significant changes were made include Financial Statement Presentation, Consolidated and Separate Financial Statements, Accounting Policies, Estimates and Errors, Financial Instruments, Inventories, Investments in Associates and Joint Ventures, Leases, and Borrowing Costs (FRC, 2015).

The definitions promoted via IFRS for SMEs were at the core of the ASB's proposals. The IASB (2015) defined SMEs in IFRS for SMEs as:

> 'Small and medium-sized entities are entities that: (a) do not have public accountability; and (b) publish general purpose financial statements for external users'

The standard then went on to define publicly accountability in the following manner:

> 'An entity has public accountability if: (a) 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 (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion)' (IASB, 2015).

The ASB proposed two definitions of public accountability; one broadly based on IFRS for SMEs where there is no consideration for small entities (see Appendix 1) and another as defined in Section 384 and Section 467 of the Companies Act 2006 (see Appendix 2) (ASB, 2009). In its policy proposal, the ASB also warned that the proposed changes would affect all entities, excluding the public sector and including those that applied industry-specific Statements of Recommended Practice (SORPs) based on UK GAAP (e.g. the charity SORP published by the Charity Commission). The policy proposal contained 16 questions (see Appendix 3). Questions 1-7 sought comment on how the proposed three-tier system could be adopted, especially using public accountability as a base. The company that is independently publicly accountable was distinguished from the company with public accountability but that is also a wholly-owned subsidiary of a listed company. Reduced disclosure was proposed for the latter group and IFRS for SMEs for the first group. Question 8 and Question 9 addressed whether the ASB should replace FRSSE with IFRS for SMEs and Question 10-13 were dedicated to financial reporting of public benefit entities (not-for-profit) and SORP users where the development of a new public benefit standard was proposed. Finally, Question 14 and 15 sought opinion on the costs of implementation of proposed changes and its adoption date respectively. This policy proposal raises some fundamental questions which this study aims to answer, namely:

> **Q1. To what extent did the respondents agree with the standard-setter's proposals?**

The policy proposal attracted 154 comment letters in contrast with 121 comment letters the IASB received in response to its IFRS for SMEs discussion paper. More participation in the UK compared to the international consultation by the IASB can be explained by the proposed changes contained in the policy proposal[10]. Various interested parties from the UK and Ireland took part in the policy proposal due to the perceived importance of the proposed changes to these groups. Prior research that investigated perceptions of various groups reported a significant diversity among participants (e.g. Quagli and Paoloni, 2012; Albu et al., 2013). This leads to the following question:

[10] Furthermore, a comparison with comment letters received in other UK consultations also reveals the importance of the consultation to participants. For example, the consultation on *'UK Implementation of the EU Accounting Directive'* in 2014 attracted only 33 comment letters (BIS, 2014). Similarly, only 15 participants expressed their views on the consultation in 2014 on '*FRED 56: Draft FRS 104 Interim Financial Reporting*' (FRC, 2014).

**Q2. Is there any homogeneity among proponents and opponents of proposed changes?**

## 6. Method and Sample

### *Method*

Considering the research questions this study is attempting to answer, the authors were of the view that content analysis of the comment letters would be the most appropriate. Content analysis is widely used in accounting research. It is a technique that uses a set of procedures to make valid inferences from the texts (Smith, 2003) Krippendorff (1980, p.21) defined content analysis as "a research technique for making replicable and valid inferences from data according to their context". The inference can be made not only about the sender of the message but also about the message itself and the audience of the message (Weber, 1985). One variant of this research method involves establishing categories and then counting the number of instances when those categories are used in a particular item of context (Dunne et al., 2004). It can also attempt to measure the values conveyed in the text by measuring positive and negative views on matters (Denscombe, 1998), which is what the present study aims to do, by analysing positive and negative views of the ASB's proposals. Beck et al., (2010) provided a comprehensive review of the use of the content analysis technique in accounting research. They argued that, broadly, there are two types of content analysis: mechanistic and interpretative. A mechanistic approach primarily includes, inter alia, counting the number of words, sentences, page proportions and frequency of disclosure. On the other hand, an interpretative approach primarily focuses on interpretations of texts and attempts to capture meaning by disaggregating the narratives into several components followed by a description of each component. Therefore, this research falls in the latter category of content analysis.

The ASB asked 16 questions to the respondents in the policy proposal. Therefore, the measurement unit for the study is the number of occasions each respondent agreed and disagreed with the proposals. To avoid subjectivity and error, a second researcher randomly analysed 15 comment letters (10%) and the results were compared. No significant differences were noted. However, it was agreed that binary allocation of 'agree' and 'do not agree' would not be suitable for some questions and more than two categories would be required.

### *Sample*

The ASB received 154 comment letters in response to its policy proposals, 151 of which were available online. Based on the function and the legal status of the respondents it was possible to segregate the respondents into 4 different groups:

- Group 1: Accounting profession. This group included large (all of the Big Five, both from the UK and Ireland) and small and medium accounting firms, professional bodies such as ACCA, the Institute of Chartered Accountants Ireland, ICAEW, and ICAS;
- Group 2: Not-for-profit (Public benefit entities). This group included charities, Universities and government institutions and their representative bodies;
- Group 3: Listed entities. This group included companies that were listed in the UK and overseas and their representative bodies; and
- Group 4: Others; any respondent that could not be grouped in group 1, 2 or 3. This group comprised only five private companies. The remaining participants were investment funds, co-operatives and housing associations.

Table 1 provides a summary of the participants in each of the four groups. In addition to the respondents' legal status, consideration was given to the scope within which they had participated. For example, professional bodies like ICAS are legally categorised as a not-for-profit, but their comments were within the scope of a professional body and comments were directed to the accounting profession as a whole and therefore, were categorised as 'accounting profession'.

**Table 1- Sample**

| *Group* | *Sample Size* |
|---|---|
| 1. Accounting Profession (AP) | 36 (23.84%) |
| 2. Not-for-profit (NFP) | 52 (34.43%) |
| 3. Listed Entities (LE) | 26 (17.22%) |
| 4. Others (OT) | 37 (24.5 %) |
| **Total** | **151 (100%)** |

Note: This table summarises the group respondents.

Participants expressed their opinions on the 16 questions asked in the policy proposal, one of which (Q15) was narrative in nature focusing on the costs of implementation and therefore this question was not within the scope of the present paper. A spreadsheet was prepared with Q1 to Q15 on the first row and the respondents on the first column. Each response was divided into three categories: (i) agree; (ii) disagree; and (iii) no view, except question 1 and question 2 which were divided into four and five categories respectively (discussed in results). If a respondent had agreed with the board, '1' was put in the corresponding cell, '0' if they had not agreed, and 'N' if they had abstained. Some questions had asked for respondents to express preferences between two alternatives and these questions were analysed based on suggested alternatives within the questions. The finding for each question was summarised in a table showing the number of agreement, disagreement, and no participation from each of the four groups.

## 7 Results

### *7.1 Summary of the Content Analysis Results*

Table 2 summarises the result of the content analysis of Q1-4 which addressed financial reporting for Tier 1. The ASB proposed two definitions of public accountability in Q1, the board's own definition and the legal definition contained within the Companies Act 2006. This definition was vital as it would be the determinant factor in deciding which entities would be required to apply full IFRS. Initially, responses were categorised between 'Board' and 'Legal'. However, none of the suggested alternative definitions of public accountability was broadly supported by the responses. This is not unexpected as researchers in the past warned about the ambiguity over the definition of accountability (Levaggi, 1995) and failed to reach a consensus on its focus (Stewart, 1984; Gray, 1992; Sinclair, 1995; Gray et al., 1996; Dhanani and Connolly, 2012; Agyemang et al., 2017; Roberts, 2017; Bebbington et al., 2019; Dillard and Vinnari, 2019). This area of the policy proposal created the biggest controversy, especially part (b) of the board's definition which assumed an entity that 'holds assets in a fiduciary capacity for a broad group of outsiders' is publicly accountable'. 25% (38) of the participants provided a qualified opinion (supported the board's definition with some reservation). Respondents from this category were concerned that the following groups would be deemed to be publicly accountable and would, therefore, be forced to apply full IFRS: charities, credit unions and housing associations, cooperatives, entities that take deposits from clients (e.g. travel agents) etc. The majority support for the board came from Group 4 (listed entities) at 46.2 % (12). Those who did not agree with either of the definitions (20%, 20) argued that neither of them reflected the economic reality of UK businesses. Many participants suggested further consultations in this regard were needed, while others argued that both of the definitions were flexible and feared that some large non-listed companies would be able to avoid full IFRS. Although respondents were quite divided in their opinion on the definition of public accountability, the lack of consensus was narrowed down when the board had suggested (Q2) full IFRS for Tier-1 entities. 27.8% (42) supported the proposal which can be compared with 22.5% (34) who did not. Once again, the majority support came from the listed entities at 46.2% (12) followed by the accounting profession at 44.4% (16). The disagreement was led by the other group (Group 4) where credit unions and investment funds belonged. For example, the Association of British Insurers noted:

> "We do not share the IASB's or the ASB's presumption that all users of accounts of publically accountable entities have the same requirements. The interests of the user of accounts of a listed entity are not necessarily the same as those of an entity which takes deposits or holds assets in a fiduciary capacity."

**Table 2: Summary of Content Analysis of Questions 1-4**

Panel A: Q1. Definition of public accountability

| *Group* | *Board* | *Legal* | *Qualified* | *Neither* | *No view* | *Total* |
|---|---|---|---|---|---|---|
| AP | 5 (13.9) | 2 (5.6) | 19 (52.8) | 7 (19.4) | 3(8.3) | 36 |
| NFP | 4 (7.7) | 0 | 5 (9.6) | 13 (25) | 30 (57.7) | 52 |
| LE | 12(46.2) | 0 | 6 (23.1) | 1 (3.8) | 7(26.9) | 26 |
| OT | 3 (8.1) | 1 (2.7) | 8 (21.6) | 9 (24.3) | 16 (43.2) | 37 |
| **Total** | **24 (16)** | **3 (2)** | **38 (25)** | **30 (20)** | **56 (37)** | **151** |

Panel B: Q2. IFRS for all tier-1 entities

| | *Agree* | *Do not agree* | *Qualified* | *No View* | *Total* |
|---|---|---|---|---|---|
| AP | 16 (44.4) | 6 (16.7) | 11(30.6) | 3 (8.3) | 36 |
| NFP | 10 (19.2) | 6 (11.5) | 4 (7.7) | 32 (61.5) | 52 |
| LE | 12 (46.2) | 8 (30.8) | 1 (3.8) | 5 (19.2) | 26 |
| OT | 4 (10.8) | 14 (37.8) | 3 (8.1) | 16 (43.2) | 37 |
| **Total** | **42 (27.8)** | **34 (22.5)** | **19 (12.5)** | **56 (37)** | **151** |

Panel C: Q3. IFRS for wholly-owned subsidiaries / Q4. Reduced disclosure for wholly-owned subsidiaries

| | Q3. *Agree* | Q3. *Do not agree* | Q3. *No view* | Q3. *Total* | Q4. *Agree* | Q4. *Do not agree* | Q4. *No view* | Q4. *Total* |
|---|---|---|---|---|---|---|---|---|
| AP | 29 (80.6) | 2 (5.5) | 5 (13.9) | 36 | 5 (13.9) | 27 (75) | 4 (11.1) | 36 |
| NFP | 4 (7.7) | 4 (7.7) | 44 (84.6) | 52 | 2 (3.8) | 2 (3.8) | 48 (92.4) | 52 |
| LE | 11 (42.3) | 11 (42.3) | 4 (15.4) | 26 | 19 (73.1) | 4 (15.4) | 3 (11.5) | 26 |
| OT | 9 (24.3) | 4 (10.8) | 24 (64.9) | 37 | 6 (16.2) | 7 (18.9) | 24 (64.9) | 37 |
| **Total** | **53 (35.1)** | **21 (13.9)** | **77 (51)** | **151** | **32 (21.2)** | **40 (26.5)** | **79(52.3)** | **151** |

Note: Mean/percentage value is shown in parenthesis. Actual count is shown on the left.

One of the primary attractions of the document was the proposal to allow subsidiaries of listed companies to make substantially less disclosure than that required by full IFRS and IFRS for SMEs, given that the subsidiary is 100% owned by its parent. That is, the proposed reduced disclosure regime would not available to a subsidiary that is not 100% owned by its parent company and therefore, it would be required to apply full IFRS or IFRS for SMEs. The cornerstone of this argument is that if the subsidiary is wholly-owned, most of the disclosures will be found in the consolidated financial statements anyway. Panel C of the table shows that 35.1% (53) of the respondents were of the view that a subsidiary should apply full IFRS as long as it has, or is deemed to have, public accountability regardless of its ownership structure. When the board had suggested reduced disclosure for such groups in Q4, 26.5% (40) of the respondents stood against it when compared with 21.2% (32) who were in favour of it. It is interesting to note that the accounting profession and the listed companies were almost equally divided in their opinion. 73.1% (19) of listed companies supported the proposal and an overwhelming 75% (25) from the accounting profession opposed it. McLeay et al., (2000) and Cortese et al., (2010) provide some support for this finding who argued that accounting profession is likely to support a regulatory change that would maximise their profit. A reduced disclosure framework is likely to reduce the cost of financial statements preparation and auditing and thus, is likely to affect the income of accountancy firms.

Table 3 summarises the findings of a content analysis involving Q5-7 which focused on the adoption of IFRS for SMEs. There was strong support for IFRS for SMEs (45%, 68) to be applied by Tier-2 entities. However, 31.1% (47) of the respondents wanted it to be amended to make it more suitable in a UK context. Although listed entities supported (57.7%, 15) IFRS for SMEs for Tier-2 entities, the majority of them were concerned about the differences between full IFRS and IFRS for SMEs and preferred UK GAAP over IFRS for SMEs. A further analysis of comment letters from this group revealed that 69% (18) respondents had concluded that IFRS for SMEs was not a suitable framework for their subsidiaries and had demanded a new reduced disclosure regime preserving the measurement and recognition criteria contained within the full IFRS. They argued that doing so would make the preparation of group accounts easier. For example, Cobham plc responded:

> "Under the policy proposal our UK subsidiaries would be eligible to adopt IFRS SMEs. However, efficiencies would not be achieved by using a GAAP which is different to the GAAP used for the Group accounts. Therefore, to adopt IFRS SMEs would be a costly and time-consuming exercise to effectively replace one set of adjustments between IFRS and UK GAAP with a different set of adjustments between IFRS and IFRS SMEs."

**Table 3: Adoption of IFRS for SMEs: Questions 5-7**

| Panel A: | Q5. IFRS for SMEs for Tier 2 entities | | | | Q6. No amendment to IFRS for SMEs | | | |
|---|---|---|---|---|---|---|---|---|
| *Group* | *Agree* | *Do not Agree* | *No view* | *Total* | *Agree* | *Do not Agree* | *No view* | *Total* |
| AP | 27 (75) | 5 (13.9) | 4 (11.1) | 36 | 13 (36.1) | 18 (50) | 5 (13.9) | 36 |
| NFP | 14 (26.9) | 2 (3.9) | 36 (69.2) | 52 | 8 (15.4) | 9 (17.3) | 35 (67.3) | 52 |
| LE | 15 (57.7) | 6 (23.1) | 5 (19.2) | 26 | 8 (30.8) | 11(42.3) | 7 (26.9) | 26 |
| OT | 12 (32.4) | 2 (5.4) | 23 (62.2) | 37 | 6 (16.2) | 9 (24.3) | 22 (59.5) | 37 |
| **Total** | **68 (45)** | **15 (10)** | **68 (45)** | **151** | **35 (23.2)** | **47(31.1)** | **69 (45.7)** | **151** |

| Panel B Q7. IFRS for SMEs for large Non-publicly accountable entities | | | | |
|---|---|---|---|---|
| | *Agree* | *Do not Agree* | *No view* | *Total* |
| AP | 24 (66.7) | 7 (19.4) | 5 (13.9) | 36 |
| NFP | 16 (30.8) | 2 (3.84) | 34 (65.4) | 52 |
| LE | 17 (65.4) | 2 (7.7) | 7(26.9) | 26 |
| OT | 13 (35.1) | 1 (2.7) | 23 (62.1) | 37 |
| **Total** | **70 (46.4)** | **12 (7.9)** | **69 (45.7)** | **151** |

There was strong support (46.4%, 70) for the proposal to allow large companies to apply IFRS for SMEs given that they do not have any public accountability. This is consistent with the earlier analysis of the definition of public accountability where the majority believed that size should not be used as a criterion for public accountability test[11].

[11] One of the proposed definitions of public accountability was the legal definition which is quantitative in nature, based on the size of the company. Only three respondents supported the legal definition.

**Table 4: Accounting of Micro-entities**

| | Q8. FRSSE to remain for foreseeable future | | | | Q9. Removal of FRSSE after a transition | | | |
|---|---|---|---|---|---|---|---|---|
| | *Agree* | *Do not Agree* | *No view* | *Total* | *Agree* | *Do not Agree* | *No view* | *Total* |
| AP | 23 (63.9) | 11 (30.5) | 2 (5.5) | 36 | 25 (69.4) | 9 (25) | 2 (5.5) | 36 |
| NFP | 15 (28.8) | 2 (3.8) | 35 (67.3) | 52 | 8 (15.4) | 10 (19.2) | 34 (65.3) | 52 |
| LE | 9 (34.6) | 2 (7.7) | 15 (57.7) | 26 | 5 (19.2) | 7 (26.9) | 14 (53.8) | 26 |
| OT | 7 (18.9) | 0 | 30 (81) | 37 | 4 (10.8) | 3 (8.1) | 30 (81.1) | 37 |
| Total | **54(35.8)** | **15 (9.9)** | **82 (54.3)** | **151** | **42 (27.8)** | **29 (19.2)** | **80 (53)** | **151** |

The board was of the view that FRSSE, a framework applied by micro-entities, would be surplus to requirements after the adoption of IFRS for SMEs. Furthermore, it would be difficult to maintain FRSSE after the removal of UK GAAP since FRSSE was based on UK GAAP. However, 35.8% (54) of the respondents believed that the board should keep the standard for the foreseeable future as shown in Table 4 compared to only 9.9% (15) who supported its immediate replacement by IFRS for SMEs. The appellants were of the view that FRSSE was serving the micro entities very well and it was very popular among very small businesses. Nevertheless, in response to Q9, 27.8% (42) opined that it would be impractical to maintain the standard in the long run and that it should be withdrawn after an appropriate transitional period. 19.2% (29) did not agree with the proposal and wanted the standard to continue because the withdrawal of it would put micro entities in great uncertainty.

**Table 5: SORP Users and Charity Accounting**

| Panel A: Q10. Board's Current Views of the SORP | | | | | Q11. Development of Public Benefit Entity Standards | | | |
|---|---|---|---|---|---|---|---|---|
| | *Agree* | *Do not agree* | *No view* | *Total* | *Agree* | *Do not agree* | *No view* | *Total* |
| **AP** | 18 (50) | 14 (38.9) | 4 (11.1) | 36 | 24 (66.7) | 7 (19.4) | 5 (13.9) | 36 |
| **NFP** | 19 (36.5) | 7 (13.5) | 26 (50) | 52 | 44 (84.6) | 6 (11.5) | 2 (3.8) | 52 |
| **LE** | 15 (57.7) | 0 | 11 (42.3) | 26 | 2 (7.7) | 0 | 24 (92.3) | 26 |
| **OT** | 5 (13.51) | 18 (48.6) | 14 (37.8) | 37 | 5 (13.5) | 1 (2.7) | 31 (83.8) | 37 |
| **Total** | **5(37.7)** | **39 (25.8)** | **55 (36.4)** | **151** | **75 (49.7)** | **14 (9.3)** | **62 (41)** | **151** |
| Panel B: Q.12 Approach to standard-setting for Public Benefit Entities | | | | | Q.13 List of areas that should be covered | | | |
| | *Stand-alone* | *IFRS/SME supplemented* | *No view* | *Total* | *Agree* | *Do not agree* | *No view* | *Total* |
| **AP** | 10 (27.8) | 13 (36.1) | 13 (36.1) | 36 | 23 (63.9) | 3 (8.3) | 10 (27.8) | 36 |
| **NFP** | 37 (71.2) | 9 (17.3) | 6 (11.5) | 52 | 38 (73.1) | 0 | 14 (26.9) | 52 |
| **LE** | 0 | 0 | 26 (100) | 26 | 1(3.8) | 0 | 25 (96.2) | 26 |
| **OT** | 3 (8.1) | 1 (2.7) | 33 (89.2) | 37 | 3 (8.1) | 0 | 34 (91.9) | 37 |
| **Total** | **50(33.1)** | **23 (15.2)** | **78 (51.7)** | **151** | **65 (43)** | **3 (2)** | **83 (55)** | **151** |
| Panel C: Q.14 Statement from the board to confirm consistency of PBEs standards with the UK GAAP | | | | | Q.16 Proposed adoption date | | | |
| | *Required* | *Not Required* | *No view* | *Total* | *Agree* | *Do not agree* | *No view* | *Total* |
| **AP** | 24 (66.7) | 2 (5.5) | 10 (27.8) | 36 | 11 (30.6) | 19 (52.8) | 6 (16.6) | 36 |
| **NFP** | 35 (67.3) | 0 | 17 (33.3) | 52 | 2 (3.8) | 22 (42.3) | 28 (53.8) | 52 |
| **LE** | 2 (7.7) | 0 | 24 (92.3) | 26 | 1 (3.8) | 18 (69.2) | 7 (26.9) | 26 |
| **OT** | 5 (13.5) | 0 | 32 (86.5) | 37 | 5 (13.5) | 15 (40.5) | 17 (46) | 37 |
| **Total** | **66 (43.7)** | **2 (1.3)** | **83 (55)** | **151** | **19 (12.6)** | **74 (49)** | **58 (38.4)** | **151** |

The board contemplated various options in its policy proposal about the future of SORPs including that related to charities. Another intriguing question in the policy proposal was Q11 where the board proposed the development of a separate standard for public benefit entities.

As shown in Panel A of Table 5, as many as 75 (49.7%) participators gave their support for the development of a separate public benefit entity standard including the Charity Commission that regulates charities in England and Wales, albeit under a separate title. Only 14 (9.3%) opposed the move including Office of the Scottish Charity Regulator (OSCR). 50 (33.1%) proponents demanded a stand-alone approach to standard-setting while about half of that number (23, 15.2%) wanted the proposed public benefit standard to be IFRS/IFRS for SMEs supplemented as shown in Panel B. However, 66 (43.7%) respondents believed that an endorsement from the board confirming the consistency of the standard with UK GAAP (new GAAP) would be required regardless of the approach.

### *7.2 Test of Homogeneity*

To answer research question 2, the researchers counted the total number of agreements and disagreements by each category of participants. This analysis was based on 11 closed-ended questions.

**Table 6: Chi-square Test of Homogeneity**

| Group | **AP** | **NFP** | **LE** | **OT** | **Total** |
|---|---|---|---|---|---|
| Agree | 222* | 170 | 103 | 75 | 570 |
| | 223.07** | 153.04 | 106.35 | 87.54 | |
| | 0.005*** | 1.880 | 0.105 | 1.797 | |
| Do not agree | 122 | 66 | 61 | 60 | 309 |
| | 120.39 | 82.96 | 57.65 | 47.46 | |
| | 0.009 | 3.468 | 0.194 | 3.315 | |
| **Total** | **344** | **236** | **164** | **135** | **879** |

Note: Chi-Sq. = 10.775, DF = 3, P-Value = 0.013; *Observed counts, **Expected counts, ***Chi-Square contributions

Q1, Q2, Q12, and Q14 were excluded from this analysis as some of these questions (Q12 and Q14) are not closed-ended or the responses were not of sufficient granularity to enable the researchers to draw a conclusion on whether the respondent agreed or disagreed with the proposal (Q1 and Q2). A Chi-square test of homogeneity was carried out on total counts. Table 6 presents the findings of the Chi-square test. The Chi-square value was 10.77 and the relevant 'p-value' was 0.013 therefore, the null hypothesis of no association between response and group was rejected at a 0.05 significance level. It is evident from the contributions to chi-square value that respondents from the 'not-for-profit' group disagreed less with the board's proposals than expected as opposed to the 'others' group who disagreed with the board more often than expected. It is noteworthy that most of the 'agree' counts of the not-for-profit group came from questions related to the proposals to develop a public benefit entity standard. Almost all respondents from this group agreed with the board in their response to Q10-14. The board was explicit in its policy proposal that not-for-profit would be exempted from the proposed tier system regardless of the definition of public accountability. On the other hand, respondents from the 'others' group were kept in the dark about the future of their financial reporting and many feared they would be required to apply full IFRS which is reflected in their response.

## 8. Discussion and Conclusion

This paper investigated some recent changes in the financial reporting environment in the UK and Ireland. It presented the findings from a content analysis of 151 comment letters that were sent to the UK standard-setter in response to its policy proposal with regard to the adoption of IFRS for SMEs in the UK and Ireland. The paper also investigated the factors that might have influenced the standard-setter's recent actions. In this regard, the development of a new advantageous framework for large listed entities and the failure to respond to the concerns of the not-for-profit sector to develop a new standard for charities were highlighted. Anomalies identified with this study will add some weight to the political economy of standard-setting argument (e.g. Cooper and Sherer, 1984 and Sikka, 2001) which claims that the accounting standard-setting process is orchestrated to protect the interests of a few powerful groups. It should be noted here that the disagreement between LE and the AP was quite noticeable in the consultation, with the board taking the side of the former group. However, prior studies were sceptical about the stance of the accounting profession alleging that the group prefers complexity and tend to support regulatory changes that maximise their income (e.g. McLeay et al., 2000; Cortese et al., 2010).

A key contribution of this study relates to the myriad conceptions of public accountability understood by accounting standard-setting stakeholders. Coming to a cognate, agreed-upon meaning of public accountability is therefore of vital importance in ensuring that all stakeholders engaged in standard-setting understand their reporting responsibilities. This study also provides important feedback to jurisdictions that are in the process of adopting IFRS for SMEs or considering IFRS for SMEs as a suitable framework. The extent of the changes made in the UK and Ireland to accommodate IFRS for SMEs, including the development of a new framework for listed entities and the call for a new framework for charities should be considered in their evaluation. The study also warns that implementation of IFRS for SMEs based on public accountability (however defined) is worth careful consideration as doing so may have an unintended consequence of bringing some entities under the scope of full IFRS, especially entities that will not be able to bear the burden of this voluminous framework. Furthermore, this paper argues that classifying stakeholders of IFRS for SMEs between users and preparers may be an oversimplification owing to the low participation by users in the standard-setting process, and the myriad preparer groups that expressed interests in IFRS for SMEs ranging from large listed entities to very small charities. Since preparers' needs and interests vary widely, they should be treated as a heterogeneous group. This study is an endeavour to address these research gaps. In particular, this study investigates a policy proposal that attracted interest from various groups, including charities, SMEs, large listed entities, and entities with a complex structure (e.g. investment funds, housing association etc.) due to the perceived impact of the proposals on these groups. Therefore, it provided an opportunity to examine the participation of a wide range of groups with divergent interests. The aim of such a group-wide analysis was to investigate UK standard-setter's response to concerns raised by these groups and to shed some lights on recent changes to the financial reporting frameworks available in the UK and Ireland. This paper contributes to the literature by providing evidence that the implementation of IFRS for SMEs based on public accountability will be a significant challenge for standard-setters. Furthermore, to the best of the authors' knowledge, this is the first comprehensive study that has analysed 151 comment letters sent to the UK standard-setters in order to illuminate the causes of recent changes triggered by the publication of IFRS for SMEs. Therefore, findings of this study would be of interest to national and international accounting standard-setters taking into account that the overall objective of this study is to improve the understanding of the use of comment letters to influence national and international standards setters addressing a common financial reporting issue.

Despite the contributions made to the extant literature of standard-setting, this study is subject to some limitations. Content analysis is a widely-used research tool in accounting research but there is a substantial element of subjectivity involved with the application of content analysis. For example, dividing comments into some categories for data reduction purposes may mask the true stance of a respondent. The authors took some measures to reduce subjectivity by increasing the number of categories associated with some topics (e.g. public accountability). However, subjectivity is an inherent limitation of content analysis and it cannot be fully eliminated. Furthermore, this study investigated standard-setting in the UK and Ireland and findings from these jurisdictions may not be applicable to other countries.

While the authors are of the view that the findings of the present study are tentative in this regard, more studies are required to get a better understanding of the standard-setting process. An investigation of subsequent consultations that led to the recent changes could be a useful starting point. Future studies could also look at other jurisdictions where IFRS for SMEs has been adopted. Another possible extension that this study suggests is examining the implications of IFRS for SMEs on the UK SME sector, especially the implications of IFRS for SMEs on the disclosure practices is worth examining. The study on implications of IFRS for SMEs will reveal if the annual reports of SMEs have increased in size, taking longer to be produced and if SMEs are facing with additional costs to comply with the new standards.

## Appendices

### Appendix 1: The Definition of Public Accountability (Board)

An entity has public accountability if:
(i) 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);
(ii) 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.

### Appendix 2: The Definition of Public Accountability (Legal)

The notion of public accountability is not a new one and the Companies Act 2006 (CA 2006) and EU directives apply the notion in determining the appropriate reporting requirements for entities under the law. Based on the legal form and nature of an entity's activities, some small and medium sized entities (under sections 384 and 467 respectively) are currently deemed to be publicly accountable and hence subject to more demanding financial reporting requirements (i.e. existing full UK GAAP). Using the current legal definitions, there is an argument that large entities are effectively deemed to have public accountability too. The definitions in CA 2006 provide that:

(i) Section 384 – companies may not use the small companies regime if they are:
- (a) a public company,
- (b) a company that –
  - (i) is an authorised insurance company, a banking company, an e-money issuer, an ISD investment firm or a UCITS management company, or
  - (ii) carries on insurance market activity, or
- (c) a member of an ineligible group.

(ii) Section 467 – companies are not entitled to take advantage of any of the provisions of this part relating to companies qualifying as medium-sized if it was at any time within the financial year in question;

(a) a public company,
Section 2 Proposals for Profit Seeking Entities
(b) a company that –
- (i) Has permission under part 4 of the Financial
Services and Markets Act 2000 (c.8) to carry on a regulated activity, or
- (ii) Carries on insurance market activity, or

(c) A member of an ineligible group.

**Appendix 3: Questionnaires from the consultation paper:**

Question 1 – Which definition of Public Accountability do you prefer: the Board's proposal or the current legal definitions? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

Question 3 – Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?

Question 4 – Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures? If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.

Question 5 – Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?

Question 6 – Do you agree with the Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.

Question 7 – Do you agree with the Board's proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

Question 9 – Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?

Question 10 – Do you agree with the Board's current views on the future role of SORPs. If not, why not?

Question 11 – Do you agree with the Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

Question 15 – If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

Question 16 – What are your views on the proposed adoption dates?

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