Focus on
Research

The research newsletter of The Institute of Chartered Accountants of Scotland

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JOIN AN ICAS TECHNICAL COMMITTEE
Welcome to our latest research newsletter.

As we started to put this edition of the newsletter together in August it seemed no time since we had produced our Spring edition and distributed it at the BAFA and EAA Conferences. They always say that time flies when you are having fun!

In this edition we report on our two new research publications - on football and SME funding. Whilst on very different topics, both have generated a lot of interest and positive feedback from our members, policy makers and the press and we are very grateful to the researchers for their hard work in producing the reports and for their assistance in the promotion of the resultant publications. We hope you enjoy reading about the research and would love to hear from you if you would like to work with us and generate impact from your own research. The new reports are profiled on pages 1 to 4 and a reminder of our new research funding approach is outlined on page 6.

Our projected list of forthcoming publications is highlighted on page 5 of this newsletter - to ensure that you receive notification of these as they are published and to hear about any new funding opportunities please subscribe to our e-news service by emailing research@icas.org.uk.

We believe that it vital that academic research contributes to the development of accounting standards and welcome the establishment by the IASB of the IFRS Research Centre (details on page 11). It is all change for financial reporting in the UK and we thought it would be useful to outline the new structure for UK GAAP in a brief article on page 10 of this newsletter. Our colleague will be doing a webinar on new UK GAAP on 5 September which is open to non-members if you want to hear about some of the key differences to existing practice.

In a commitment to widen access to accountancy and finance professions, The ICAS Foundation was established to identify and support academically talented young people from disadvantaged communities to complete higher education and start a career in accountancy or finance. For further details see page 9.

ICAS is currently seeking academics to join its various Technical Committees, you do not need to be a member of ICAS, but should have a keen interest in policy development. Find out more on page 8.

We look forward to welcoming you to Scotland in 2015, when Glasgow will follow on from the success of hosting the Commonwealth Games by hosting the European Accounting Association (EAA) in April 2015 and ICAS will host the Accounting and Auditing Conference in our Edinburgh offices the week before the EAA. For further details of these and other forthcoming conferences see pages 12 and 13.

The ICAS Research Team
May 2014 saw Manchester City crowned champions of the English Premier League and Paris St-Germain (PSG) finish top of the French Ligue 1. Earlier that same month, UEFA, European football’s governing body, announced that nine clubs had been found not to have complied fully with the break-even rules specified in the organisation’s Financial Fair Play (FFP) regulations. As such, those nine clubs were invited to enter into discussions with the relevant FFP body, the Club Financial Control Body (CFCB) – whose members include Brian Quinn, former deputy governor of the Bank of England and former chairman of Celtic – over sanctions to be applied to allow those clubs to continue to participate in UEFA’s Europe-wide club competitions, the Champions League and the Europa League. Failure to do so would result in the case being referred to the CFCB’s Adjudicatory Panel, which in turn would issue a non-negotiable decision.

To the lay observer it is perhaps something of a surprise to discover that two of these nine clubs were the aforementioned Manchester City and PSG. Perhaps of greater surprise still is the fact that these clubs are owned by some of the wealthiest individuals or institutions in the world: Sheikh Mansour bin Zayed Al Nahyan, a member of the Abu Dhabi Royal family, in the case of Manchester City; and the Qatar Investment Authority, in the case of PSG.

More generally, the very need for financial regulation of an industry that has demonstrated highly impressive revenue growth in recent years may seem a little odd. But that top level growth masks a number of problems. Too often it has been accompanied by ever more rapid escalation in football player salary costs – the major item of football club expenditure – resulting in unsustainable levels of debt, and in several cases, clubs being placed in corporate rescue situations. Moreover, while football’s revenue has continued to grow, it is not distributed equally between countries, or indeed between clubs in those countries.

FFP is not an attempt to resolve all of professional football’s financial challenges. Nor is its objective to level the competitive playing field. A mixture of high level principles and detailed rules, at its simplest, FFP is a form of prescriptive financial management. It seeks to improve the financial capability of clubs by forcing them to live within their means; encouraging clubs to align their football expenditure with their football income. It also imposes limitations on owner investment, in particular ex-post subsidies, behaviour that in an interdependent competitive activity like football where inevitably there are more losers than winners, has consequences not merely for those clubs with wealthy owners.

Given the importance of FFP for the business of football, the aim of this study was to gain a professional perspective on the technical requirements contained within the detailed FFP regulations as well as on the perceived implications of FFP for football club financial reporting. The approach adopted involved a series of 16 interviews with: finance directors of clubs in England and Scotland most likely to be affected by the regulations; representatives of clubs’ auditors; football finance experts working in the profession; and representatives of governing bodies and leagues. A number of key findings emerged from the interviews.

Overall, there was an acceptance of the need for enhanced financial regulation of football, “to get some financial sanity into European football”, or to “save clubs from themselves” as two interviewees comment...
put it. Interviewees also welcomed the rolling three year break-even performance measure and the rationale behind it, which was seen as incentivising longer-term planning and decision-making by clubs.

There was also universal support for the enhanced rules on the monitoring of overdue payables to employees, other clubs and the taxation authorities – something that has featured prominently in recent high-profile cases of administration and liquidation of Scottish clubs – though some disquiet, nevertheless, that the regulations placed insufficient emphasis on cash measures.

The primary concern expressed by interviewees focused on UEFA’s willingness and capacity to enforce its regulations, given the political and economic context of the game. While it is of course still too early to offer definitive comment on this, UEFA’s decision to pursue Manchester City and PSG over their failure to break even, suggests that the regulatory bodies are indeed willing and ready to take on powerful clubs and their wealthy owners when required.

A number of technical concerns in the regulations were identified by interviewees, most notably around concepts such as fair value and related parties. These focused both on the competence of the regulatory body to determine such concepts and also on the response of clubs and their advisers to any such determination, specifically the encouragement of creative accounting and an FFP avoidance industry.

FFP is a form of responsive regulation, developed out of dialogue between the governing body and key stakeholders, including the clubs themselves. As such, the regulations assume a degree of virtue or goodwill on the part of the clubs. Nevertheless, any system of regulation requires sanctions and in UEFA’s case this takes the form of a nine-level enforcement pyramid; built upon warnings and reprimands at its base, escalating through to removals of titles and disqualification from competitions at its peak.

Two of the possible sanctions are financial in nature, involving either penalties or the withholding of competition revenues. This logic of pecuniary sanctions was not clear to several interviewees, given that the overall objective of the regulatory system was to improve the financial capability of clubs. Another concern was the risk of “double jeopardy”, where the effects of the rolling three year break-even calculation mean that in practice a club may end up being punished more than once for the same offence, i.e. a financial penalty may make it more difficult to break even in the future.

The introduction of FFP has not only further illuminated weaknesses in the operating behaviour of some football clubs, but also weaknesses in the reporting and communication of their activities. The evidence from this study suggests that existing football club financial reporting is seen as largely compliance driven: “we’re doing the accounts because we have to do them”.

The financial statements were regarded as providing some assurance to some users such as suppliers, lenders and governing bodies. But the limited meaningful disclosure on key performance indicators (KPI), like salary costs, coupled with the peculiarities of the financial and ownership structure of many clubs means that the financial statements are of little apparent use as either a decision-making tool or as a form of accountability to wider groups of stakeholders, such as the supporters.

What FFP has done is focus attention on longer-term time horizons, on the interdependence of clubs and also on the social and political context within which professional football takes place. For example, the break-even requirement, the key FFP performance indicator, involves a comparison of relevant costs and relevant income over a three-year period, “relevance” being dependent on political and value judgements about what types of activities organisations engage in and how they are funded. So, while the amortisation of players’ registration rights is considered a relevant cost, expenditure on community development activities or finance costs attributable to the development of a new stadium is not.

The FFP break-even result is thus likely to be quite different from any performance figure reported in the financial statements, and several interviewees expressed concern about the creation of multiple performance measures.

There was no consensus among interviewees, however, as to whether FFP would have implications for future football club financial reporting.

Some individuals saw no relationship between this regulatory process and financial reporting. Others, however, believed that the financial consequences arising from FFP coupled with enhanced media and stakeholder interest may result in increased disclosure of the FFP calculation certainly, but also of other KPIs, such as player salaries. The possibility that in time FFP might encourage broader football club reporting, akin perhaps to integrated reporting, with a greater emphasis on the multi-faceted nature of football clubs’ contribution and value and on providing improved accountability to stakeholders was not widely shared by interviewees. That said the dual nature of football clubs – part business, part social institution – coupled with the broader context within which FFP has been developed as a form of public interest or social regulation, means that a willing football club would be an ideal organisation to participate in an integrated reporting pilot case study.

In the meantime, public interest regulation is being played out very publicly in the national and international media. Manchester City’s decision to accept the sanctions offered by the CFCB – a fine of £49m, a reduction in the number of players it can register for next season’s Champions League as well as a restriction on its summer transfer spend – may be a pragmatic response on the club’s part, but at the same time it augurs well for the effectiveness of FFP and financial regulation and for encouraging clubs to adopt a more rational approach to their finances.

Download the report at: www.icas.org.uk/morrow-ffp

RESEARCH IMPACT

ICAS member events, involving Stephen Morrow, Brian Quinn, UEFA and high profile football clubs, are being held.

For more information contact: research@icas.org.uk
FUNDING ISSUES CONFRONTING HIGH GROWTH SMES IN THE UK

Research shows that a small share of high growth firms – those growing at 20 per cent or more for a three-year period – are disproportionately important in creating jobs, increasing productivity and disseminating innovations throughout the economy.

As far back as the 1970s, the US economist David Birch first identified the job-generating potential of high growth firms, which he famously labelled “gazelles”. This group is a very small part of the business base that disproportionately drives the economy, generating new jobs and spurring productivity growth. Should policy initiatives be focused on this specific group of small firms, which have the potential to drive economic growth? Towards this end, there is a developing consensus that policy-makers – both within Holyrood and Westminster – should focus on this relatively small group of firms.

Whilst there is strong evidence on the importance of high growth SMEs to the economy, there is little evidence on the demand for finance from high growth SMEs and whether they face problems obtaining such finance. This new research report considers these crucial issues. Based on a quantitative analysis of the Small Business Survey – a government survey of almost 9,000 firms – and a series of in-depth interviews with high growth entrepreneurs, the funding needs of rapidly growing SMEs are investigated.

There is an assumption that high growth firms face particular problems in raising the finance they need. They need finance for a number of reasons. In the first place, firms with the potential to become high growth firms need start-up capital to develop and commercialise new products. Finance is also important once growth is achieved, and high growth firms can have erratic and unpredictable growth paths, making it hard to manage cash flow and plan for capital investment. Rapid growth is often achieved through acquisition of other companies, and firms therefore need finance to fund these purchases, sometimes at short notice. High growth firms are also particularly likely to be innovative, and there is evidence to suggest that innovative companies find it harder to access finance – because new products can be risky, involve sunk costs and require specialist valuation.

This research found that high growth SMEs are particularly likely to seek external finance and have a higher demand for capital than other SMEs. Almost 44 per cent of the SMEs experiencing rapid growth had applied for finance in the past year, compared to 33 per cent of other SMEs. Yet the proceeds of growth also gave these firms other options and many therefore used a “mixed cocktail” of internal and external finance to invest in the business. The SMEs interviewed were keenly aware of the need to maintain balanced growth and retained earnings were a popular way of doing this.

Given the volatile nature of growth, it was anticipated that high growth SMEs would find it harder to access funding from external sources. But contrary to these expectations, there was no evidence that high growth SMEs found it harder – or easier – to access finance than other SMEs. Instead, banks and other lenders seemed to be focused on cash flow and repayment ability rather than risk. High growth SMEs were not disadvantaged in the market.

Nine per cent of SMEs undergoing rapid growth and applying for finance were doing so to fund expansion, compared to three per cent of other firms. High growth firms were also more likely to be applying for finance for acquisition.

Previous research on access to finance in SMEs has identified a group of firms called “discouraged borrowers”, who want external finance, but are discouraged from applying for fear of refusal from external lenders. This is a significant cohort in the economy and is roughly the same size as those who are turned down for funding.

High growth SMEs do not seem to correspond to this profile of “discouraged borrowers”. Instead, the problem for many high growth SMEs was not that
they feared being refused finance, but that they were “reluctant” to seek the finance they needed to successfully grow. Many were reluctant because they did not want to yield control of their business to outsiders. In the interviews, a number of entrepreneurs were confident that their business could do better, yet were unwilling to lose control or part with equity. These reluctant borrowers may be holding back their firms, and the economy as a whole.

What do these findings mean for government policy? In the run-up to the election, policy-makers will no doubt be seeking to come up with proposals appealing to the small business community. The first conclusion is policy-makers need to carefully consider the way they target initiatives at particular types of firms. General measures to help all firms grow will be more expensive, and less successful, than efforts to improve access to finance for the minority of firms that have the potential to make a disproportionate impact on the national economy.

The second key message is that policy-makers need to ensure they understand the mundane reality of rapid growth. This gap between perceptions and evidence may stem from a romantic image of high growth firms as fast-growing technology start-ups, seeking finance from venture capitalists or other specialist lenders. In fact, the reality is more down to earth, with high growth firms being found across a variety of sectors and as likely to be established firms as newly founded enterprises. Also, of those applying for finance, only five per cent were seeking venture capital investment, compared to almost 50 per cent who were applying to banks. Many did not feel that risk capital met their needs and were reluctant to relinquish equity in their business.

Most of the firms interviewed were established businesses from a number of traditional sectors, far away from the dominant portrayal of the rapidly growing high-tech start-ups associated with Silicon Valley. Yet many government schemes are strongly focused on improving the supply of start-up finance, especially to new high-tech firms. Policy-makers need to consider how to provide finance to other types of high growth firms.

A third important finding concerns the nature of demand for funding. At present policy initiatives deployed by government strongly centre on increasing the supply of funding within the economy. This is the central thread underpinning current UK policy frameworks. However, this research suggests that supply-side policy initiatives may fail to yield a satisfactory impact unless the demand for external finance can be effectively stimulated. To date, initiatives to stimulate levels of demand have been largely absent.

The research findings around the demand for finance and reluctant borrowers has some important implications for policy-makers. If a small proportion of firms are particularly important for economic growth, yet are disinclined to access funding or cannot obtain the types of long-term capital they need to sustain their growth, this presents a problem which will require attitudinal change on behalf of the entrepreneurs and perhaps change in the products offered by providers of finance. There needs to be serious consideration of how reluctant borrowers can be transformed into “willing borrowers”.

It is now universally agreed that nurturing more “gazelles” is crucial for increasing productivity and for enhancing the long-term economic growth of the UK economy. Furthering our understanding of the complex funding arrangements and debt management strategies within these dynamic SMEs could potentially help unlock the growth potential of the small and medium-sized business sector in the UK.

Download the report at: www.icas.org.uk/brown-lee

A grant to undertake a follow-on study has been awarded. For further information please see page 7 of this newsletter.
COMING SOON

Keep an eye out for our forthcoming publications

Auditors, supervisors and risk in financial services
Ian Dewing and Peter Russell, University of East Anglia

Charity trustee information needs: Can enterprise performance management systems help?
Diana Limburg, Cathy Knowles, Maureen McCulloch and Laura Spira, Oxford Brookes University

The mummy track: An unfair choice or the perfect solution?
Elizabeth Gammie, Robert Gordon University, Kathleen Herbohn, University of Queensland and Rosalind Whiting, University of Otago

Balancing the board: Directors’ skills and diversity
Chris Mallin, University of East Anglia and Higham Farag, University of Birmingham

Skills, competencies and the sustainability of the modern audit
Christopher Humphrey, Anna Samsonova-Taddei, Javed Siddiqui and Stuart Turley, Manchester Business School, Ilias Basioudis and Margaret Woods, Aston Business School and Chrystelle Richard, ESSEC Business School, France

The capability and competency requirements of auditors in today’s complex global business environment
Karin Barac, University of Pretoria, Elizabeth Gammie, Robert Gordon University, Bryan Howieson, University of Adelaide and Marianne van Staden, University of South Africa

This is a joint publication with the UK FRC.
As we outlined in our Spring edition of this newsletter, ICAS recently published its new approach to research funding. We remain committed to promoting evidence-based policy making and therefore commission research in key areas to support the development of policy. We believe that focusing on a number of specific topics of interest will maximise the impact of the resultant research and be beneficial to our researchers, ICAS and policy-makers.

As a reminder we have two streams for research applications which are summarised below:

**PRO-ACTIVE APPLICATIONS**
Applications for research funding are invited to be submitted where they are in the public interest and are consistent with the ICAS Technical Policy Board’s (TPB’s) policy themes and the policy positions of one of the ICAS technical committees. These themes and policy positions are available from the ICAS website. Applications are welcome at any point in time.

**CALLS FOR RESEARCH**
ICAS will identify topics where research is considered crucial to take forward an important issue affecting the profession or business in an international or UK context. In such circumstances a call for research will be issued and advertised on our website. The calls for research may be specific or identify a broader theme or programme of work. Each call for research will specify the application requirements, including the deadline by which applications must be received.

We provide a helpful, friendly and approachable service to our researchers. The Research Centre can offer assistance with projects whilst allowing researchers to maintain their independence. We provide financial as well as in-kind support to our researchers to maximise the impact and influence of the research.

The resultant research will normally be used by ICAS in order to pursue policy change and in some circumstances the research will also feed into larger ICAS thought leadership projects.

Applications for funding are welcome from researchers and institutions anywhere in the world and are not restricted to the academic community.

We will shortly issue some new calls for research. So please keep an eye on our website or if you are a subscriber to our e-news service, watch out for news of these opportunities arriving in your inbox. You can subscribe to our e-news service by emailing: research@icas.org.uk

For further details on the application and review process please visit the ICAS website at: [www.icas.org.uk/researchfunding](http://www.icas.org.uk/researchfunding)

If you have any queries please contact the ICAS Research Centre - email research@icas.org.uk or phone +44(0)131 347 0237.

ICAS remains firmly committed to funding world class academic research that has the potential of having a real impact on important issues that affect the profession or business, either in the UK or internationally.

Allister Wilson
Convener, ICAS Research Committee
NEW GRANTS AWARDED

Reluctant borrowers? Examining the demand and supply of finance for high growth SMEs
Ross Brown, University of St Andrews and Neil Lee, London School of Economics
This follow on research project will examine the complex inter-relationships between the demand and supply of finance for high growth SMEs (HG-SMEs). The project will specifically seek to answer the following questions:

• What determines the demand for external finance in HG-SMEs?
• Which sources of finance do HG-SMEs use to fulfil their funding requirements?
• What are the main difficulties encountered obtaining external sources of funding?
• What evidence is there of “discouraged” or “reluctant” borrowers and what are the reasons for discouragement?
• If firms avoid external lenders does this reduce the growth capacity of these firms?
• What are the perceptions of lenders towards firms undertaking rapid periods of growth?
• Are alternative sources of funding a realistic option for HG-SMEs?
• What policy initiatives could help alleviate funding difficulties encountered by HG-SMEs?

The project will involve interviews with: 30 HG-SMEs across the UK; the major UK banks who provide around 80% of lending to SMEs in the UK and with financial intermediaries, peer to peer lending institutions and crowd-funding platforms; and UK policymakers.

The impact of the FBU requirement in the UK - What’s next for assurance?
Ian Fraser and Boram Lee, University of Stirling
This project was commissioned to further previous ICAS research and technical publications on the future of assurance and corporate reporting.

This project has two major objectives:

• To determine the impact of the FRC’s fair, balanced and understandable (FBU) requirement on auditors, audit committees and companies themselves. This will involve identifying the level of assurance that auditors are providing under the FBU regime, and the likely additional costs and benefits, if auditors were required to provide a positive opinion on the front-half of the annual report.
• To investigate the changes to corporate reporting that the FBU requirement has had and, in particular, the impact of the introduction of the new Strategic Report requirements.

The results of this research will be used in discussion with users to assess the extent to which they have received, or are currently receiving, the level of assurance they desire on the front-half of the annual report, and consequently whether they would prefer to receive a positive expression of opinion on the front-half.

ICAS research grants have been funded by The Scottish Accountancy Trust for Education and Research (SATER)
Are you an academic with an interest in policy and developments in the profession? Would you be interested in serving as a member on one of the ICAS Technical Committees?

We recognise the benefit academics can bring to our Committees due to knowledge of existing research, ideas for future projects and the challenge and rigour brought to projects/responses. We are also keen to ensure that our Research and Technical Committees work together to promote evidence-based policy making and believe that having academics on our Technical Committees, as well as the Research Committee, will assist with this objective.

We are looking for academics with an interest in policy-relevant research. The role is a volunteer role but travel and hotel expenses are reimbursed. You do not have to be a member of ICAS but should be interested in developing and contributing to policy-relevant thought leadership projects and contributing to ICAS responses to consultations in the respective area. Each Technical Committee is different but on average they meet around four times per year, usually in Edinburgh although there are opportunities for video conferences and we anticipate that more meetings may also be held in London in the future.

Committees usually have around 10-12 members, mainly ICAS members with a variety of experiences and backgrounds. They represent all areas of the profession including practice, business, the public sector, the not-for-profit sector and academia.

We have the following Technical Committees at ICAS:
- Research Committee (responsible for the research strategy of ICAS, liaison with the other Technical Committees and for monitoring research projects)
- Audit and Assurance Committee
- Accounting Standards Committee
- Corporate Reporting Task Force
- Business Policy Committee (covers areas such as corporate governance, laws and regulations, SME funding)
- Charities Committee
- Ethics Committee
- Insolvency Committee
- Pensions Committee
- Public Sector Committee
- Sustainability Committee
- Tax Committee

The ICAS Technical Policy Board: Key policy themes and positions paper identifies current areas of interest for each Committee. This is available at www.icas.org.uk/researchfunding.

If you would be interested in applying to join one of the above Committees please email a CV with covering letter to Michelle Crickett, Director of Research (research@icas.org.uk), explaining:
- which Committee you are interested in;
- why you would like to join the Committee;
- what you would contribute to the Committee; and
- why you should be selected.

If you would like any further information please contact research@icas.org.uk.

Connect with the professional community online

ICAS is on various social networks if you would like to communicate with us or just keep up to date with ICAS news.

JOIN US ON FACEBOOK
FACEBOOK.COM/ICASACCOUNTING

FOLLOW US ON TWITTER
@ICASACCOUNTING

CONNECT WITH US ON LINKEDIN
SEARCH FOR ICAS THE PROFESSIONAL BODY OF CAS
THE ICAS FOUNDATION
Committed to widening access to accountancy and finance professions

Too few young people from Scotland’s most deprived communities enter higher education and the professions. The ICAS Foundation was therefore established to identify and support academically talented young people from disadvantaged communities to complete higher education and start a career in accountancy or finance. This is achieved through financial support, a mentoring scheme and internships that add important skills and experiences required upon graduation.

The Foundation awards bursaries of up to £10,000 (£2,500 per annum over 4 years). The bursaries aim to help alleviate the costs of studying and, for example, day-to-day living costs. In June 2014, 18 bursaries were granted to students starting university in September. Importantly, each student also has the support of a mentor. The mentors are all CA’s and will use their experience in a facilitative manner to support the career exploration and determination of the student and help them take their first steps into a professional career.

To help meet various financial pressures throughout students’ academic careers, the ICAS Foundation also has a small number of grants available to students studying accountancy and finance. To be eligible to apply the student will be in receipt of a Student Bursary from the Scottish Government and their parental/guardian income will be under £34,000.

For further information on eligibility for bursaries and grants go to: www.icasfoundation.org.uk

You can make a difference by donating to the Foundation. Donations can be made online at: www.icasfoundation.org.uk

For further information please contact Linda Jamieson - ljamieson@icasfoundation.org.uk

The ICAS Foundation is a restricted fund of The Scottish Accountancy Trust for Education and Research (SATER). SATER is a recognised Scottish charity: No SC034836

ICAS RECOGNISED BY THE SCOTTISH CREDIT AND QUALIFICATIONS FRAMEWORK

ICAS has been recognised by the Scottish Credit and Qualifications Framework (SCQF) Partnership as a Credit Rating Body. The recognition means ICAS is now one of six SCQF approved Credit Rating Bodies which, along with the Scottish Qualifications Authority, universities and colleges, is allowed to make its own credit rating decisions.

To become a Credit Rating Body, ICAS had to demonstrate that it had robust quality assurance processes and a rigorous approach to qualifications development and credit rating. As part of this exercise the CA qualification was credit rated at Level 11 (equivalent to a Masters Degree) on the SCQF Framework.

CONGRATULATIONS

Congratulations to the winners of the ICAS research prize draws at the EAA and BAFA 2014 conferences. The lucky names drawn from the many entrants were:

BAFA 2014 - Sheila Ellwood, University of Bristol
EAA 2014 - Lily Brooks, Washington State University

Sheila and Lily each won a Nexus Tablet.

Make sure you drop by our exhibition stand at next year’s conferences and enter the 2015 prize draws!
This article summarises the key changes to the financial reporting that will shortly take effect, due to the changes to UK GAAP and new regulations for "micro-entities". The article focusses primarily on the company sector, however it is also relevant for unincorporated entities.

**BACKGROUND**

In 2012 and 2013 the Financial Reporting Council (FRC) revised financial reporting standards for the United Kingdom and Republic of Ireland. These standards are mandatory for accounting periods commencing on or after 1 January 2015, although early adoption is available. The revision will fundamentally reform financial reporting, replacing almost all extant standards with four Financial Reporting Standards:

- FRS 100 Application of Financial Reporting Requirements.
- FRS 101 Reduced Disclosure Framework.
- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.
- FRS 103 Insurance Contracts (not yet issued and not covered by this article).

The revisions made by the FRC followed a sustained and detailed period of consultation. The FRC made these fundamental changes recognising that the introduction of International Financial Reporting Standards (IFRS) for listed groups in 2002 (with application from 2005) called into question the need for two sets of financial reporting standards. Evidence from consultation supported a move towards an international-based framework for financial reporting, but one that was proportionate to the needs of preparers and users.

The introduction of the new standards will result in the following financial reporting structure in the UK:

**IFRS ADOPTED IN THE EU**

IFRS adopted in the EU is still required only for the group accounts of listed companies (including AIM-listed companies). For the individual accounts of companies that are members of a group presenting IFRS accounts, FRS 100 introduces new options. If such a company chooses to prepare its individual accounts under IFRS, it may take advantage of the reduced disclosures set out in FRS 101. If the individual accounts are prepared under UK GAAP, these will now be under FRS 102, which also includes reduced disclosures for group companies.

**UK GAAP**

For all entities not preparing accounts under IFRS or the FRSSE (i.e. mostly medium-sized and large private companies but also possibly including the individual accounts of listed companies), full UK GAAP (that is, SSAPs and FRSs) will be replaced by a single standard - FRS 102. The new standard is based on a condensed version of IFRS (the IFRS for SMEs) so there will be greater consistency between UK GAAP and IFRS. At fewer than 250 pages, it is also considerably shorter and more user-friendly than the existing standards. Industry-specific SORPs are being updated to reflect FRS 102. FRS 102 is not identical to the IFRS for SMEs and substantive amendments have been made in certain areas to encompass options which exist within existing UK GAAP and EU endorsed IFRS e.g. the ability to revalue fixed assets.

**FRSSE**

The FRSSE will remain in force for small companies and other small entities who qualify to use it. A new version of the FRSSE has been issued (FRSSE 2015) which contains a limited number of conforming amendments. However, the FRSSE is likely to be further revised before 1 January 2015 to better reflect the changes to UK GAAP introduced by FRS 102. A consultation on the FRSSE is expected in 2014.

**MICRO-ENTITIES**

The Department of Business, Innovation and Skills has continued to pursue an agenda of reducing the regulatory burden on smaller entities and has recently introduced simplified accounts requirements for ‘micro-entities’, following on from the introduction of an EU Directive. A company (or qualifying partnership) meets the definition of a micro-entity if it satisfies two or more of the following requirements:

- Turnover - Not more than £632,000
- Balance sheet total - Not more than £316,000
- Number of employees - Not more than 10

The types of companies that are excluded from the small companies regime are also excluded from the micro-regime, along with charities. Micro-entities have the option of preparing an abridged balance sheet and profit and loss account along with limited notes only. The new regulations apply for accounting periods ending on or after 30 September 2013, for accounts filed on or after 1 December 2013.

Entities that meet the definition of ‘micro’ can still choose to follow the FRSSE or full UK GAAP. This may be appropriate where a company has a wider range of users of the accounts, or has more complex transactions which may not be adequately represented through the simplified format.

The new UK GAAP standards and other information are available from the FRC website at: [www.frc.org.uk](http://www.frc.org.uk)

ICAS WEBINAR - JAMES BARBOUR FILLS THE KNOWLEDGE GAP

To find out more about the changes to UK GAAP, join our free webinar with ICAS Director of Technical Policy James Barbour on the mandatory introduction of FRS 102. This webinar will provide an update on FRS 102 and highlight some of the key differences from existing practice.

The webinar will take place on 5 September 2014 at 12.30 pm. The webinar is free to members and costs £25 for non-members.

For further information and to book a place visit: www.icas.org.uk/Events/UKGAAPisdeadlongliveUKGAAP/Webinar/

THE IFRS RESEARCH CENTRE

The International Accounting Standards Board (IASB) has launched its web-based IFRS Research Centre.

The IFRS Research Centre aims to facilitate communication between the IASB and the broader research community. Its main objectives are to increase awareness of the issues that the IASB will be considering in the coming two to three years, to encourage research professionals to undertake targeted research projects and to contribute to the IASB moving to more evidence based standard-setting.

To achieve these objectives, the IFRS Research Centre will highlight ways for academics to participate in the standard-setting process and enable those engaged in research to stay informed about the IASB’s research activities.

Commenting on the announcement, Hans Hoogervorst, Chairman of the IASB, said:

“We recognise the importance of high quality research to help the IASB develop financial reporting Standards and assess the outcomes of those Standards. The research community has a particularly important role to play by undertaking analysis and research that is independent.”

As part of this initiative the IASB will host annual Research Forums. The IASB Research Forum offers a unique interdisciplinary platform for academics from around the world to exchange their views with peers and members of the IASB on topics that address the interaction between international financial reporting requirements, policy and the functioning of capital markets.

Topics and workshop contributions will typically focus on areas in financial reporting that are either already on the IASB’s research agenda for consideration, that have been brought to the IASB’s attention by stakeholders as areas that the IASB should consider addressing or as research that focuses on issues related to the implementation of IFRS.

The inaugural IASB forum will be held at Said Business School at Oxford University on 2 October 2014. The forum will be run in conjunction with a special issue of Accounting and Business Research (ABR), dedicated to academic papers addressing issues relevant to the development and application of the IASB’s Conceptual Framework for the Preparation and Presentation of Financial Reports.

The 2015 IASB Research Forum is being planned for Hong Kong.

Access the IFRS Research Centre at: www.ifrs.org/IFRS-Research/Pages/IFRS-Research-Centre.aspx

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ICAS AND PARTNER BODIES PROPOSE NEW WAYS TO FUND GROWING BUSINESSES

More ways of filling the investment gap between early-stage angel funding and large-scale funding are needed for emerging Scottish companies.

This is one of the key findings in a new report *The Supply of Growth Capital for Emerging High-Potential Companies in Scotland*, by the Royal Society of Edinburgh (RSE), Scottish Financial Enterprise (SFE) and ICAS.

The three institutions came together to examine the challenges facing emerging companies in sourcing growth capital. The report finds that the health and dynamism of the Scottish economy would be enhanced if more young businesses could be grown to a nationally and internationally significant scale.

The report notes that the Scottish investment infrastructure is relatively good at supporting promising businesses in the start-up and early stages. However, such businesses can find it difficult to attract the funding they need to progress and convert their early successes into substantial growth.

One of the key challenges for these companies is in going from business angel investment to subsequent larger-scale sources of funding, such as venture capital which operates under significantly different criteria.

Among the report’s key recommendations are the following points:

- The establishment of co-investment funding between pension funds and the private sector on a similar model to the UK Government’s Enterprise Capital Funds. Such a model would help promote the establishment of such small venture funds or provide them with access to capital.
- Developing a Super Co-Fund, built on the model of the Scottish Co-Investment Fund, inviting institutional investors to match the combined angel plus public sector co-investment on an agreed ratio.
- Revisiting the use of Venture Capital Trust structures operating from a base in Scotland.


2014 IS A MOMENTOUS YEAR FOR SCOTLAND - SO WHAT'S IN STORE FOR 2015?

2014 is quite a year for Scotland. We have hosted a fabulous Commonwealth Games in Glasgow (the sun even came out!), we have the vote on Scottish Independence on 18 September and Gleneagles will host the Golf Ryder Cup on 26 September. But what can we expect from 2015?

In April 2015 Glasgow will see over 1,000 accounting and finance academics attend the European Accounting Association (EAA) Conference at the Scottish Exhibition and Conference Centre (SECC). The conference is being hosted by the University of Strathclyde and Professor Christine Cooper will Chair the Local Organising Committee. The ICAS team looks forward to attending and exhibiting at the conference and meeting you there on 28 April.

We are sure that the conference will be a great success and that everyone will enjoy the friendly and fun atmosphere that Glasgow has to offer. Not to mention the culture, nightlife and shopping. It also offers a great opportunity to see the other sights that Scotland has to offer – just remember to bring an umbrella!

ICAS will host the Auditing and Assurance Conference, organised by the Auditing Special Interest Group of the British Accounting and Finance Association, in our Edinburgh offices on 23-24 April 2015. This annual conference offers a unique mix of distinguished expert speakers, from practice, policy and academia, in the areas of auditing and assurance. The conference is organised for the week before the EAA and Glasgow is only a short 50 minute train journey from Edinburgh.

ICAS previously hosted the conference in 2011 and we are delighted to have been asked to host the event again. The conference brings together the academic community and those in practice and policy making and offers excellent opportunities to debate the issues of the day and the future of assurance. We look forward to welcoming you to ICAS!

For further information on these two conferences visit:

EAA Conference - [www.eaacongress.org](http://www.eaacongress.org)
Audit & Assurance Conference - [www.bafa.ac.uk](http://www.bafa.ac.uk)
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<tr>
<th>Event Title</th>
<th>Dates</th>
<th>Location</th>
<th>Website</th>
<th>Email Address</th>
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<tr>
<td>BAFA CPAF Conference 2014</td>
<td>1-2 September</td>
<td>University of Manchester</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:chris.humphrey@mbs.ac.uk">chris.humphrey@mbs.ac.uk</a></td>
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<tr>
<td>EIASM Public Sector Conference 2014</td>
<td>2-4 September</td>
<td>University of Edinburgh</td>
<td><a href="http://www.eiasm.org/frontoffice/event">www.eiasm.org/frontoffice/event</a>_</td>
<td><a href="mailto:cristina.setyar@eiasm.be">cristina.setyar@eiasm.be</a></td>
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<td>BAFA Scottish Area Group Conference 2014</td>
<td>4 September</td>
<td>University of St Andrews</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:jf60@st-andrews.ac.uk">jf60@st-andrews.ac.uk</a></td>
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<tr>
<td>Tax Research Network Conference 2014</td>
<td>4-5 September</td>
<td>University of Roehampton</td>
<td><a href="http://www.trn.org.uk">www.trn.org.uk</a></td>
<td><a href="mailto:Rebecca.Boden@roehampton.ac.uk">Rebecca.Boden@roehampton.ac.uk</a></td>
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<td>EUFIN Conference 2014</td>
<td>25-26 September</td>
<td>University of Regensburg, Germany</td>
<td><a href="http://www.wiwi.uni-regensburg.de/EUFIN_2014/Home/index.html.en">www.wiwi.uni-regensburg.de/EUFIN_2014/Home/index.html.en</a></td>
<td><a href="mailto:eufin.bwl@ur.de">eufin.bwl@ur.de</a></td>
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<tr>
<td>IASB Research Forum 2014</td>
<td>2 October</td>
<td>Said Business School, University of Oxford</td>
<td><a href="http://www.ifrs.org">www.ifrs.org</a></td>
<td><a href="mailto:zcollyer@ifrs.org">zcollyer@ifrs.org</a></td>
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<tr>
<td>World Congress of Accountants 2014</td>
<td>10-13 November</td>
<td>Rome, Italy</td>
<td><a href="http://www.wcoa2014rome.com">www.wcoa2014rome.com</a></td>
<td><a href="mailto:info@wcoa2014rome.com">info@wcoa2014rome.com</a></td>
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<td>World Congress of Accounting Educators &amp; Researchers 2014</td>
<td>13-15 November</td>
<td>Florence, Italy</td>
<td><a href="http://www.oic.it/iaer2014/">www.oic.it/iaer2014/</a></td>
<td><a href="mailto:infoiaer2014@oic.it">infoiaer2014@oic.it</a></td>
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<tr>
<td>Emerging Scholars in Banking and Finance 2014</td>
<td>8-9 December</td>
<td>Cass Business School, London</td>
<td><a href="http://www.cass.city.ac.uk/cbr/index.html">www.cass.city.ac.uk/cbr/index.html</a></td>
<td><a href="mailto:bankingcentre@city.ac.uk">bankingcentre@city.ac.uk</a></td>
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<tr>
<td>BAFA Financial Accounting &amp; Reporting SIG Conference 2015</td>
<td>9 January</td>
<td>ACCA Offices, London</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:michaeljohn.jones@bristol.ac.uk">michaeljohn.jones@bristol.ac.uk</a></td>
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<tr>
<td>BAFA Doctoral Colloquium 2015</td>
<td>22-23 March</td>
<td>Manchester University</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:bafa@shef.ac.uk">bafa@shef.ac.uk</a></td>
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<td>BAFA Annual Conference 2015</td>
<td>23-25 March</td>
<td>Manchester University</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:bafa@shef.ac.uk">bafa@shef.ac.uk</a></td>
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<tr>
<td>BAFA Accounting Education SIG Conference 2015</td>
<td>6-8 May</td>
<td>Manchester Metropolitan Business School</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:c.guthrie@mmu.ac.uk">c.guthrie@mmu.ac.uk</a> or <a href="mailto:e.franklin@mdx.ac.uk">e.franklin@mdx.ac.uk</a></td>
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<tr>
<td>BAFA Audit &amp; Assurance Conference 2015</td>
<td>23-24 April</td>
<td>ICAS offices, Edinburgh</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:i.g.basioudis@aston.ac.uk">i.g.basioudis@aston.ac.uk</a></td>
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<td>EAA Doctoral Colloquium 2015</td>
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<td>St Andrews</td>
<td><a href="http://www.eaa2015.org">www.eaa2015.org</a></td>
<td><a href="mailto:eaa@eiasm.be">eaa@eiasm.be</a></td>
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<td>EAA Annual Conference 2015</td>
<td>28-30 April</td>
<td>SECC, Glasgow</td>
<td><a href="http://www.eaa2015.org">www.eaa2015.org</a></td>
<td><a href="mailto:eaa@eiasm.be">eaa@eiasm.be</a></td>
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<td>Managing Popular Culture Research Workshop 2015</td>
<td>30 April</td>
<td>University of Edinburgh</td>
<td><a href="http://www.business-school.ed.ac.uk">www.business-school.ed.ac.uk</a></td>
<td><a href="mailto:ingrid.jeacle@ed.ac.uk">ingrid.jeacle@ed.ac.uk</a></td>
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<td>FARSIG Financial Reporting &amp; Business Communication 2015</td>
<td>2-3 July</td>
<td>University of Bristol</td>
<td><a href="http://www.bafa.ac.uk">www.bafa.ac.uk</a></td>
<td><a href="mailto:michaeljohn.jones@bristol.ac.uk">michaeljohn.jones@bristol.ac.uk</a></td>
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