



Department for
Business, Energy
& Industrial Strategy

1 Victoria Street
London SW1H 0ET

T +44 (0) 20 7215 5000
E www.beis.gov.uk/contact

www.beis.gov.uk



21 February 2019

Dear Sir/ Madam

IMPORTANT INFORMATION RELATING TO ACCOUNTING AND CORPORATE REPORTING IN PREPARATION FOR A POTENTIAL 'NO-DEAL' SCENARIO

This letter sets out important issues in relation to the future of accounting and corporate reporting that you need to consider on behalf of your business to get ready for the UK leaving the EU at 11pm on 29 March 2019. The content of this letter and corresponding FAQ are only immediately relevant in a no-deal scenario but we urge you to follow the recommended actions, and note the content, so that you are prepared for the scenario of the UK leaving the EU without a deal. The information is particularly relevant for UK and EEA listed companies, AIM companies, large privately-owned entities and Global Depository Receipt (GDR) issuers.

In October the Government published a [Technical Notice](#) covering the Accounting and Audit sector. You should read that Technical Notice as well as related important information contained in both the Structuring Your Business [Technical Notice](#), and the Providing Services [Technical Notice](#). In addition, you should read the Accounts and Reports (Amendment) (EU Exit) Regulations 2019¹ and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019² and their accompanying Explanatory Memoranda. These statutory instruments remedy deficiencies in the law and mean that the UK will have a functioning legal framework for your sector at 11pm on 29 March 2019.

In addition, the Government has recently laid the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019³ that sets out how new or amended international accounting standards (IAS) issued by the

¹ <http://www.legislation.gov.uk/uksi/2019/145/contents/made>

² <http://www.legislation.gov.uk/uksi/2019/177/contents/made>

³ <http://www.legislation.gov.uk/ukdsi/2019/9780111179826/contents>

International Accounting Standards Board (IASB) will be adopted for use in the UK after 29 March 2019. This SI gives power to the Secretary of State to endorse and adopt new or amended IAS. A separate SI, that is expected to be made in due course, will sub-delegate the adoption function to another body (a UK endorsement body). It is expected that this UK endorsement body will take forward the work on assessing new IAS for endorsement and adoption in the UK. It is likely to be operational during 2019, once the appropriate infrastructure and staff are in place. New or amended IAS that are still in the process of being endorsed in the EU will be assessed for adoption in the UK by this body.

Whilst the UK's corporate reporting regime will remain largely unchanged after the UK exits the European Union, there are some changes that impact a small number of companies. You should consider these, together with the transitional arrangements being made by the Government, to ensure that you continue to be fully compliant with the relevant accounting and reporting requirements.

UK INCORPORATED COMPANIES AND GROUPS

The following information is relevant for individual companies incorporated in the UK or groups of companies where the holding company is incorporated in the UK.

Annual accounts prepared using international accounting standards as endorsed by the EU

The Companies Act requires that UK incorporated companies prepare their annual accounts: either in accordance with IAS that have been endorsed by the EU ("EU-adopted IAS"); or in accordance with UK Generally Accepted Accounting Practice (UK GAAP) standards.

For financial years straddling exit date- beginning on or before 29 March 2019 and ending after that date- the Regulations made by Government will ensure that these companies can continue to use EU-adopted IAS.

UK incorporated companies will be required to use "UK-adopted IAS" for financial years beginning after the date of UK's exit from the EU.

New or amended IAS published by the IASB after 29 March 2019, and those already published but not yet endorsed by the EU at that date, will be assessed for adoption in the UK by the new endorsement body, expected to become operational during 2019. This will enable companies to continue to apply the latest version of IAS in their accounts.

UK companies with cross-border presence in the EEA

UK incorporated parent companies with subsidiaries based in the EEA need to check the relevant reporting requirements in the EEA State where the subsidiary is based. This is because the corporate reporting requirements of the UK's Companies Act will not be deemed automatically equivalent to the EU's Accounting Directive so that UK reporting requirements (e.g. UK GAAP) may no longer be considered equivalent to the reporting requirements of the EEA country where the subsidiary is registered.

UK companies with an EEA presence, e.g. a branch, will also need to check the relevant reporting requirements in the EEA State where they have a presence. As noted above, simply applying the corporate reporting requirements of the UK's Companies Act may not be sufficient as these will not be automatically deemed equivalent to the EU's Accounting Directive.

UK public companies with UK listing

In the event of a no-deal scenario, accounting-related changes in the Transparency Directive (TD) and Prospectus Directive (PD) framework, will have an impact on the way in which companies raise capital, and obtain or maintain trading of their various lines of securities on

a regulated market. UK incorporated groups with securities admitted to trading on a UK regulated market can continue to use their accounts prepared using EU-adopted IAS for all accounting periods commencing prior to exit day for the purposes of TD and PD. They will not be required to restate those accounts or filings retrospectively. They will, however, be required to prepare accounts using UK-adopted IAS for all accounting periods beginning after exit day.

UK public companies with EEA listing

From exit day, if a UK incorporated group issues debt from a subsidiary incorporated in the EU that is admitted to trading on an EU regulated market, or itself maintains an admission to trading within the EU, they will need to comply with EU local regulatory provisions in a no-deal scenario. This is in addition to the requirement to produce accounts in UK for domestic filing purposes. This may include the need to publish accounts using EU-adopted IAS or IAS as issued by the IASB for the subsidiary, for the parent company or for the whole group.

Audit Committees

All UK Public Interest Entities (“PIEs” - banks, building societies, insurers or issuers of shares or debt securities that are admitted to trading on UK regulated markets) will continue to be subject to the requirements in the Disclosure and Transparency Rules issued by the Financial Conduct Authority (FCA), and other rules issued by Prudential Regulation Authority (PRA), for an audit committee. This requirement originates from the Audit Directive but will continue to apply subject to two important changes:

- UK issuers of shares or debt securities that are only admitted to trading on EEA regulated markets will no longer be subject to this framework.
- the current exemption for those businesses with a parent that is also subject to the same Directive requirement will continue to apply but only where the parent is incorporated in the UK. For subsidiaries that are issuers of securities on UK regulated markets the parent may be subject either to the FCA’s or the PRA’s rules. However, for those subsidiaries that are banks or insurers and qualify under the more limited exemption provided by the PRA, the parent must be subject to the PRA’s rules.

Appointment of auditors

UK companies will continue to be required to appoint a UK registered audit firm. It will then be for an individual UK registered auditor to sign the audit report on behalf of the firm when it is due. However, some rules relating to the approval of individuals and firms for registration as auditors will change. These are set out in a separate open letter that the Government and FRC are sending to audit firms and the professional accountancy bodies.

EEA INCORPORATED COMPANIES AND GROUPS

The following information is relevant for individual companies incorporated in the EEA or groups of companies where the holding company is incorporated in the EEA with some cross-border presence or listings in the UK.

EEA companies and groups with cross-border presence in the UK

After exit date, EEA companies with a UK incorporated subsidiary will no longer be eligible for certain exemptions from preparing and filing of accounts.

For example, this will mean that, after exit date, an intermediate UK parent company with an immediate EEA parent will no longer be automatically deemed exempt from producing group accounts. Such companies may be required to prepare group accounts and file them with Companies House unless they meet conditions set out for such companies included in non-UK group accounts of a larger group, in accordance with the Companies Act.

In addition, UK registered dormant companies with EEA parents will be required to prepare individual annual accounts for accounting periods beginning after exit date and file these with Companies House.

Other exemptions that will be removed for financial periods beginning after exit date relate to exemption from producing the non-financial information statements and alteration of accounting reference dates.

EEA public companies with UK listing

The Government's approach is to provide continuity, where possible, following the UK's exit from the EU. Therefore, in a no-deal scenario the Government intends to issue an equivalence decision, in time for exit day, determining that EU-adopted IAS can continue to be used to prepare financial statements for TD requirements and for the purposes of preparing prospectuses under the PD for issuers from the EU seeking an admission to trading in the UK.

This means that post exit, if an EU incorporated group issues debt or any other securities, which are admitted to trading on a UK market, it will continue to be able to use its accounts prepared in accordance with EU-adopted IAS to meet requirements under the TD and PD in the UK.

Audit of the company

EEA companies that issue securities that are admitted to trading on a UK regulated market will need to make sure that their EEA auditor is registered either as a statutory auditor in the UK, or as a third country auditor on the register of third country auditors maintained by the Financial Reporting Council. This requirement will apply for all accounting years beginning on or after exit day.

There are also implications for EEA companies that are audited by UK auditors and audit firms that are also registered as auditors in EEA States. After the UK leaves the EU it is possible UK auditors' and audit firms' existing registrations as EEA auditors and audit firms will no longer be valid. EEA companies that think they are affected should discuss this with their auditor, who should consult the relevant EEA State competent authority.

CONCLUSION

We hope that you find the information in this letter helpful as you prepare for the UK leaving the EU.

Whilst it is important that you consider the position set out in this letter you should also note that longer term the UK will be seeking to reach agreement with the EU to obtain third country equivalence on corporate reporting. Whilst this will not reinstate the exemptions referenced above, it will ensure that the reporting requirements for companies operating across borders are recognised on both sides of the UK-EU borders on a long-term basis.

If you have any questions in relation to the content in this letter, please contact EUexit@frc.org.uk.

Yours Sincerely,

Debbie Gillatt
Stephen Haddrill

Debbie Gillatt (Director, Business Frameworks)
Stephen Haddrill (Chief Executive, FRC)

Frequently Asked Questions (FAQ)

As with the content of the letter above the following answers are only applicable in a no-deal scenario where the UK leaves the EU without having agreed a Withdrawal Agreement. Whilst it remains the UK's aim to secure a deal with the EU, we would urge companies affected by the content of these FAQs to take the recommended actions, and seek further relevant advice if necessary, as soon as possible.

1. Can a UK public company with an EEA listing still use IAS as adopted by the EU to prepare its accounts?

Yes. IAS as adopted by the EU are currently used to prepare company accounts for listing purposes on EEA regulated markets. Nevertheless, we recommend that you check with the listing authority in the EEA country where you have a listing to ensure that you will face no additional requirements from 30 March 2019.

As a UK company, however, the accounts that the company files with Companies House will have to be prepared using UK-adopted IAS.

2. Can an EEA company with a UK listing still use IAS as adopted by the EU to prepare its accounts?

Yes. The Government will bring forward an equivalence decision, in time for exit day, determining that EU-adopted IAS can continue to be used to prepare financial statements for the purposes of the TD⁴ and for the purposes of preparing prospectuses under the PD for issuers from the EU seeking an admission to trading in the UK.

This means that post exit, if a EU incorporated group issues debt or any other securities, which are admitted to trading on a UK market, it will continue to be able to use its accounts prepared in accordance with EU-adopted IAS to meet requirements under the TD and PD in the UK.

3. Can a UK incorporated company with a UK listing still use IAS as adopted by the EU to prepare my accounts after UK's exit from the EU?

No. After 29 March 2019 UK incorporated companies will be required to comply with UK-adopted IAS.

4. What will change on 30 March?

Changes in the main relate to UK incorporated companies with parent companies incorporated in the EEA states. Such companies will lose certain exemptions from preparing and filing financial statements for financial years beginning after exit day. For example, this will mean that intermediate UK parent companies with an immediate EEA parent will no longer be exempt from producing group accounts. Those companies would be required to

⁴ See following link for further relevant information: <https://www.gov.uk/government/publications/draft-official-listing-of-securities-prospectus-and-transparency-amendment-eu-exit-regulations-2019/draft-official-listing-of-securities-prospectus-and-transparency-amendment-eu-exit-regulations-2019-explanatory-information>

prepare and file group accounts with Companies House for financial years beginning after 29 March 2019.

Similarly, UK incorporated dormant companies with EEA parents will no longer be exempt from preparing individual accounts. Such dormant companies will need to prepare individual annual accounts and file these with Companies House for financial years beginning after exit day.

5. When will IAS as adopted by the UK be ready to use?

Changes to legislation are due to be made in time for exit day that will adopt the EU-adopted IAS up to the date of exit as UK-adopted IAS and set out the process for the adoption of any new or amended IAS issued by the IASB after that date. It is expected that a UK endorsement body will assess new and amended IAS issued by the IASB for adoption in the UK. This body is expected to be operational during 2019.

6. What will be the impact on how a UK private company prepares its accounts?

If a company prepares its accounts in accordance with EU-adopted IAS, the current rules will continue to apply for financial years that begin before exit day. For financial years beginning after exit day, the changes to legislation will mean that EU-adopted IAS, as at exit day, will become UK-adopted IAS. It is intended that any new or amended IAS issued by the IASB will be assessed for endorsement and adoption in the UK by the new endorsement body, which is expected to be operational during 2019. Immediately after exit day, the accounting standards remain the same; however, the basis for preparation note to the accounts will need to be changed to refer to UK-adopted IAS.

If a company prepares its accounts in accordance with UK GAAP there will be no change after 29 March 2019.

7. What will be the impact for a dormant UK subsidiary of an EEA parent?

A UK incorporated dormant subsidiary of an EEA parent is currently exempt from the requirement to prepare and file individual accounts. After the UK leaves the EU, such a subsidiary will be required to prepare individual accounts and file these with Companies House (as per question 4 above).