



Department for
Business, Energy
& Industrial Strategy



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Dear Sir/Madam

ACCOUNTING AND CORPORATE REPORTING AFTER THE END OF THE TRANSITION PERIOD

In February 2020 we sent a letter¹ providing information about accounting and reporting standards during the Transition Period. The TP ends on 31 December 2020, and this letter explains the arrangements that will be in place for accounting and reporting standards in the UK from 1 January 2021. The information is particularly relevant for UK incorporated companies, multinational groups with a UK and EEA presence and UK and EEA companies with cross-border listings.

In October 2018, the Government published guidance on gov.uk covering changes to the UK's accounting framework for both UK and EEA companies². You should read that guidance alongside this correspondence. There is also a published webinar covering the changes set out in this letter which you may want to watch - you can search 'UK Transition Business Webinar: Accounting and Audit Framework' on YouTube or follow the link contained in the footnote below³.

In addition, you may want to read the statutory instruments that bring into effect the changes that this letter sets out (and, where relevant, we have included a reference to the relevant provision that brings into effect the change). These include the Accounts and Reports (Amendment) (EU Exit) Regulations 2019⁴ and the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019⁵.

¹ <https://www.frc.org.uk/getattachment/ea65b159-3247-4366-a0b5-2cc26649dd85/ACCOUNTING-IP-COMMUNICATION-2020-Final.pdf>

² <https://www.gov.uk/guidance/accounting-for-uk-companies-from-1-january-2021>

³ <https://www.youtube.com/watch?v=l6a8QMM5JA4>

⁴ <https://www.legislation.gov.uk/uksi/2019/145/contents>

⁵ <https://www.legislation.gov.uk/uksi/2019/685/contents/made>



The statutory instruments ensure that the UK's legal framework for accounting and corporate reporting will operate independently from EU law. They will come into force at 11pm on 31 December 2020.

It is important to note that for the vast majority of companies the UK's accounting and corporate reporting regime will remain largely unchanged. However, we would urge all companies who have some form of cross-border relationship in the EEA or that currently use International Financial Reporting Standards (IFRS) to read the contents of this letter to ensure that you remain fully compliant with the relevant accounting and reporting requirements.

UK INCORPORATED COMPANIES OR GROUPS

General requirements

The Companies Act 2006 requires that UK incorporated companies prepare their annual accounts either in accordance with International Accounting Standards that have been endorsed by the EU (EU-adopted IFRS), or in accordance with UK Generally Accepted Accounting Practice (UK GAAP) standards.

All UK incorporated companies that are currently required to use EU-adopted IFRS will need to use UK-adopted international accounting standards for financial years that begin on or after 1 January 2021. On 1 January 2021, UK-adopted international accounting standards and EU-adopted IFRS will be identical.

Companies with financial years ending on 31 December 2020, can continue to use EU-adopted IFRS as it stands at the end of the transition period for the 2020 financial year, and UK-adopted international accounting standards for the next financial year.

Where new or amended IFRS are adopted by the UK after the transition period, but before those companies file their accounts for the financial years that straddle the end of the transition period, they can choose to apply any new IFRS adopted by the UK in addition to EU-adopted IFRS as they exist at the end of the transition period. This also applies to companies with financial years ending before the end of the transition period, but who do not file until after the end of the transition period. Where companies choose to make use of this option, they will need to disclose what standards they have used as part of the notes to their financial statements.

Please note that the consolidated set of UK-adopted international accounting standards will be accessible on the UK Accounting Standards Endorsement Board's (UK EB) website from 1 January 2021. Further information on the UK EB is provided below.

UK companies with EEA listing

UK incorporated companies or groups with securities admitted to trading on an EEA regulated market, or UK incorporated groups that issue debt from a subsidiary incorporated in the EEA, will need to comply with local regulatory provisions from the 1 January 2021. For instance, they may need to state that their accounts comply with both UK-adopted international accounting standards (for domestic filing purposes) and IFRS as issued by the IASB (or other permitted equivalent standards) for the subsidiary, the parent company or the whole group (for the purposes of the EEA listing). We would urge any companies that may be affected by this change to check with the relevant EEA competent authority as soon as possible so that they are clear what requirements will apply. If UK-adopted international accounting standards are granted equivalence to EU-adopted IFRS then accounts prepared using these standards will



be permissible for trading on an EEA regulated market. Further guidance will be issued if an equivalence decision on UK-adopted international accounting standards is reached.

UK issuers of shares or debt securities that are only admitted to trading on EEA regulated markets will no longer be subject to Transparency Rules issued by the Financial Conduct Authority (FCA) from 1 January 2021.

UK GAAP Users

Generally speaking, companies that apply UK Generally Accepted Accounting Practice (UK GAAP) to prepare their accounts will not face any changes to their reporting requirements. The exceptions to this are companies that have an EEA parent or subsidiary or are listed in the EEA. The changes that may apply for UK GAAP users with an EEA parent or subsidiary are covered in the next section of this letter.

The Transparency Directive currently permits use of UK GAAP for companies not required to prepare consolidated accounts. However, after the transition period, it is likely that companies that are currently permitted to use UK GAAP in respect of securities admitted to trading on a regulated market in the EEA will need to prepare an additional set of accounts that comply with the relevant Transparency Directive requirements. This requirement is likely to have an immediate effect so that the standards will not be permissible for Transparency Directive purposes even where they cover financial years that began before 1 January 2021. We would urge companies that may be affected to contact the relevant EEA competent authority where they have securities admitted to trading to understand what requirements will apply after the end of the transition period.

Changes to certain filing exemptions- UK incorporated companies

UK intermediate parent company with EEA parent

Intermediate parent companies in the UK that have an EEA parent using EU-adopted IFRS to produce group accounts can benefit from the exemption in s.401 of the Companies Act 2006 from the requirement to produce consolidated accounts at the UK sub-group level⁶. This is because the UK has granted equivalence to EU-adopted IFRS.

Similarly, if the EEA parent produces group accounts that the company has determined as equivalent to those required by UK law, then the UK intermediate parent will also be able to benefit from the s.401 exemption for financial years that begin on or after 1 January 2021.

If the EEA parent produces group accounts that are not equivalent to those required by UK law, then the UK intermediate parent company will need to produce consolidated accounts at the UK sub-group level.

UK incorporated subsidiary with an EEA parent

UK incorporated subsidiaries with an EEA parent can no longer rely on the parent's non-financial information statement. Where the UK subsidiary is itself in scope of producing a non-financial information statement⁷, then this will need to be separately produced for financial years that begin on or after 1 January 2021. This should be included within its strategic report.

⁶ <https://www.legislation.gov.uk/ukpga/2006/46/section/401>

⁷ Companies in scope of s.414CA of the Companies Act 2006.

Additionally, for financial years that begin on or after 1 January 2021, UK subsidiaries will no longer be permitted routinely to extend the period to align their accounting reference date with their EEA parent⁸. They will now only be able to extend their accounting reference period once every 5 years.

It is also important to note that the subsidiaries audit exemption will no longer be available for subsidiaries of EEA parents. This means that UK registered large or medium sized subsidiaries, with an immediate EEA parent, will need to have their accounts audited for financial years that begin on or after 1 January 2021. This will also apply to UK registered small subsidiaries that cannot otherwise access the small companies audit exemption. For further information relating to changes to the UK audit regime please refer to the separate letter covering these changes⁹.

Dormant subsidiaries

The preparation and filing exemptions will no longer be available for dormant subsidiaries of EEA parents. This means that dormant UK registered subsidiaries with an immediate EEA parent will need to prepare and file individual annual accounts with Companies House for financial years that begin on or after 1 January 2021¹⁰.

EEA INCORPORATED COMPANIES AND GROUPS

EEA companies with UK listing

EEA companies with transferable securities admitted to trading on a UK regulated market and who use EU-adopted IFRS will not have to do anything. The UK has already determined the equivalence of EU-adopted IFRS for the purposes of the FCA's Transparency Rules¹¹.

EEA companies with transferable securities admitted to trading on a UK regulated market who use Member State GAAP, for financial years beginning on or after 1 January 2021 will need to prepare accounts in accordance with the law of the UK.

EEA companies with transferable securities admitted to trading on a UK regulated market will, in addition, need to ensure that their EEA auditor is registered as a third country auditor on the register of third country auditors maintained by the Financial Reporting Council. Further information is contained in the separate letter that covers changes to the UK audit regime.¹²

Intermediate EEA parent with UK Parent

An intermediate EEA parent company owned by a UK parent may need to produce consolidated group accounts for their EEA sub-group, as well as individual accounts. We urge you to check with the relevant EEA State to understand the local position, and whether you can continue to rely on being exempt from producing group accounts by virtue of your accounts being included within the consolidated group accounts of your UK parent.

UK Accounting Standards Endorsement Board

⁸ See paragraph 4 of Schedule 2 to the Accounts and Reports (Amendment) (EU Exit) Regulations 2019.

⁹ <https://www.gov.uk/government/publications/uk-accounting-and-audit-framework-from-1-january-2021>

¹⁰ See paragraph 5 of Schedule 2 to the Accounts and Reports (Amendment) (EU Exit) Regulations 2019.

¹¹ https://www.legislation.gov.uk/uksi/2019/541/pdfs/ukiod_20190541_en.pdf

¹² Link



The UK Accounting Standards Endorsement Board (UK EB) is being established to endorse and adopt new or amended IFRS into the body of UK-adopted international accounting standards after the transition period. It will also be required to contribute to the development of a single set of international accounting standards.

The Chair of the UK EB has been appointed¹³ and will lead an independent Board of between 8 and 14 members.

We expect the Board to be operational in early 2021. For the intervening period, the Secretary of State will have the power to adopt standards.

The Government intends to delegate the statutory functions for endorsing and adopting IFRS for use in the UK, and influencing the international debate on the development of those standards, from the Secretary of State to the UK EB early in 2021.

Further information on the UK EB can be found here:

www.gov.uk/government/groups/uk-endorsement-board-UKEB

Conclusion

We hope that you find the information in this letter helpful as you prepare for the end of the Transition Period.

As referenced above the UK is seeking equivalence decisions on accounting and audit, and an adequacy decision on audit from the European Commission. As more information relating to those decisions emerges further guidance will be issued as required.

In the meantime, if you have any questions in relation to the content of this letter or would like to offer any thoughts on the issues raised, you can email companylaweuexit@beis.gov.uk.

Yours sincerely,

Debbie Gillatt, Director, Business Frameworks, BEIS

Sir Jon Thompson, Chief Executive Officer, FRC

¹³ <https://www.gov.uk/government/news/chair-of-uk-accounting-standards-endorsement-board-appointed>



FAQ – Frequently Asked Questions

1. UK-adopted international accounting standards and EU-adopted IFRS will be identical. Why do I need to use UK-adopted international accounting standards?

After the end of the Transition Period it will no longer be appropriate for the UK to use international accounting standards which are endorsed and adopted by the EU (EU-adopted IFRS). The Government is establishing the UK Accounting Standards Endorsement Board (UK EB) to undertake this function in the UK. The new body will endorse and adopt new or amended standards issued by the International Accounting Standards Board (IASB) if they meet certain criteria, including whether they are conducive to the UK's long term public good. On 31 December 2020, UK-adopted international accounting standards will be identical to EU-adopted IFRS.

Further information on the UK EB can be found here:

www.gov.uk/government/groups/uk-endorsement-board-UKEB

2. Where can I find UK-adopted international accounting standards?

The consolidated set of UK-adopted international accounting standards will be accessible on the UK EB's website from 1 January 2021.

3. UK-adopted international accounting standards and EU-adopted IFRS will be identical. Why will the EU not accept UK-adopted international accounting standards for Transparency Directive purposes?

If the UK-adopted international accounting standards are deemed equivalent by the European Commission, then accounts prepared using UK-adopted international accounting standards will be permissible for Transparency Directive purposes on an EEA regulated market. Further guidance will be issued if an equivalence decision on UK-adopted international accounting standards is reached.

If the EU does not grant equivalence to UK-adopted international accounting standards, UK companies filing their accounts in respect of securities admitted to trading on an EEA regulated market will need to comply with local regulatory provisions from 1 January 2021. For instance, they may need to state that their accounts comply with both UK-adopted international accounting standards (for domestic filing purposes) and (e.g.) IFRS as issued by the IASB. We would urge companies with cross-border listings that may be affected by this change to check with the relevant EEA competent authority as soon as possible to clarify the requirements that will be applicable to them.

The UK has already determined the equivalence of EU-adopted IFRS for the purposes of the FCA's Transparency Rules.

4. When will the UK Accounting Standards Endorsement Board (UK EB) be fully established?

The Government will delegate the statutory functions for endorsing and adopting IFRS for use in the UK and influencing the international debate on the development of those standards, from the Secretary of State to the UK EB in early 2021 once the Endorsement Board members have been appointed.



Until the Board is in place and the statutory instrument has been made, the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 provides the Secretary of State with the necessary statutory powers to adopt standards.

5. Where can I find information relating to the operation of the UK EB and how it will consider the adoption of new or amended standards?

You can find information relating to the UK EB on the gov.uk page:

www.gov.uk/government/groups/uk-endorsement-board-UKEB

More detailed information relating to the UK EB will be made available online in due course. This will include access to the consolidated set of UK-adopted international accounting standards, as well as, in time, new or amended standards endorsed and adopted for use in the UK.

6. What has the UK sought equivalence on?

The UK has responded to the EU's equivalence questionnaire on UK-adopted international accounting standards. An equivalence decision will mean that UK incorporated companies with securities admitted to trading on EEA regulated markets will be permitted to use UK-adopted international accounting standards for Transparency Directive purposes.

The UK has also responded to the EU's equivalence questionnaire on the reporting regime that covers the requirement for large undertakings and public interest entities operating in the extractive or logging industries to disclose payments they have made to Governments¹⁴. An equivalence decision from the EU will mean that a UK undertaking which has EEA subsidiaries can continue to produce a consolidated report for those subsidiaries including payments to governments made by the EEA subsidiary undertakings.

Whilst UK Government believes that an equivalence decision on payments to governments reporting requirements will affect only a small number of companies, we would urge these companies to seek specific advice to understand what impacts they might need to prepare for should an equivalence decision not be available by the end of the transition period.

7. When will the Commission issue an equivalence decision to the UK?

The UK has completed its assessments and responded to the EU's equivalence questionnaires. The UK Government hopes that equivalence determinations can be made in a timely manner in the interests of companies with cross-border listings and operations in both the UK and the EEA.

8. Will the UK be granting equivalence to other third countries?

Where third countries' accounting standards have already been granted equivalence by the European Commission to EU-adopted IFRS, these will continue to be recognised as equivalent to UK-adopted international accounting standards. The UK will have a framework

¹⁴ The Reports on Payments to Governments Regulations 2014 (SI 2014/3209), as amended. This implemented Chapter 10 of the 'Accounting Directive' (2013/34/EU).



in place to assess other third countries' accounting standards for equivalence to UK-adopted international accounting standards after the end of the transition period.¹⁵

9. Will Irish incorporated companies be able to use UK GAAP including for listing purposes?

The Financial Reporting Council (FRC) is the accounting standard setter for both Ireland and the UK. As a result, UK GAAP and Irish GAAP¹⁶ are for material purposes the same. This will continue to be the case after 31 December 2020.

Company Law in Ireland requires that companies incorporated in Ireland prepare financial statements for the company either according to 'Irish GAAP' or according to EU-adopted IFRS.

For UK incorporated companies or groups with securities admitted to trading on the Irish Stock Exchange or UK incorporated groups that issue debt from a subsidiary incorporated in Ireland the same advice applies as set out in the letter above. That is, such companies will need to comply with local regulatory provisions from the 1 January 2021 - in this case Irish regulatory provisions. We would urge companies affected to contact the Irish Financial Services Regulatory Authority and check what requirements will apply.

¹⁵ The historic equivalences and the new framework are both contained in the retained EU laws Commission Regulation (EC) 1569/2007 and Commission Decision (EC) 2008/961, both as amended by the Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/707).

¹⁶ FRS 100-105