Department for Business Innovation & Skills

UK IMPLEMENTATION OF CHAPTERS 1-9 OF THE EU ACCOUNTING DIRECTIVE

Government response to the consultation

JANUARY 2015

Contents

1. Executive Summary

1.1 In implementing the provisions of the new Accounting Directive, the Government's priority is to maintain the integrity of, and confidence in, the UK's well-respected accounting and financial reporting framework. The UK's framework must continue to provide high quality information for users of accounts such as creditors, shareholders and regulators. The Directive does not set out to make significant changes to the fundamentals of the EU financial reporting and, as such, most of the Member State options previously available[1] have been retained.

1.2 The Government consulted on its approach to the implementation of the new Accounting Directive from **29 August 2014 to 24 October 2014**. The consultation document noted those areas where a mandatory change was imposed and set out the Government's proposals where a new option was available or where it was intended that an established position should be changed. The Government also took the opportunity to consider changes to the accounting regime in response to issues raised during the Company and Commercial Law Red Tape Challenge[2] process.

1.3 33 responses were received. There was broad support for our proposals. All responses to the consultation are available on the BIS website and can be viewed at https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting.

1.4 In addition to the written responses to the consultation, the policy and its supporting analysis has been informed by discussions with an expert working group which includes senior representatives from the accountancy and audit sector.

1.5 In summary we intend to:

- Adopt the maximum thresholds available to determine the size of small companies. This will enable 11,000 medium-sized companies to be re-categorised and access the less burdensome small companies regime. (Mandatory increases in the thresholds for medium-sized and large companies will also be applied.)

- Reduce the number of mandatory notes required of small companies to 13 notes, where these are appropriate. (It is estimated that currently most small companies must provide a minimum of 17 notes).

- Permit small companies to prepare an abbreviated balance sheet and abbreviated profit and loss account if approved by all of the company's shareholders. This strikes a balance between enabling simplification and protecting minority shareholder interests.

- Give companies in the same group as a public company which is not a listed company access to the small or medium-sized companies regimes.

[1] As provided by the 4th and 7th Company Law Directives. 78/660/EEC and 83/349/EEC respectively.

[2] On 24 January 2014, Prime Minister David Cameron renewed the Government's commitment to the Red Tape Challenge, a programme with the aim to leave office having reduced the overall burden of regulation.

- Provide companies with the opportunity to use alternative layouts when preparing their profit and loss account and the balance sheet provided that the information given is at least equivalent to the information otherwise required by the standard formats. (This option is intended to reduce the burden of consolidation for those in a group using international accounting standards.)

- Require that, in exceptional circumstances, where the useful life of goodwill cannot be reliably estimated that it shall be written off over no more than 10 years.

- Require that information on subsidiaries included with the consolidated financial statements is only provided as a note to those statements;

- Remove the requirement for micro-entity companies to prepare a Directors Report;

- Permit the use of the "equity method" in individual company financial statements.

1.6 We will not amend the definition of net turnover to include other sources of income. We considered that there was insufficient evidence, or appetite, to justify introducing such a significant change into the UK's financial reporting framework at this time. However, there was particular interest in the position of charitable companies which may receive a significant proportion of their income from sources other than the sale of goods and services. We will continue discussions with the Charity Commissioners on this issue.

1.7 We will not take action to de-couple the link between the small company thresholds for accounting and audit purposes as part of the implementation of the Accounting Directive. This will maintain the status-quo and permit audit exemption thresholds to rise automatically in step with the increase in the small company accounting thresholds. However, the Government is already seeking stakeholder views on whether new separate lower thresholds should be introduced for the small companies audit exemption[3]. If the Government decides in the light of responses to that document that specific audit exemption thresholds should be introduced to the Companies Act, it would be possible to do this in 2015. However the document makes clear that this is not the Government's preferred approach and seeks responses to the view that the same thresholds should continue to apply for both audit and accounting.

1.8 The Government intends to introduce legislation "The Companies and Groups (Accounts and Reports) Regulations 2015" to implement the Directive early in 2015.

1.9 Companies will be required to apply the new financial reporting framework for financial years commencing on or after 1 January 2016. However, the regulations will permit that companies may voluntarily adopt the framework earlier if this would enable them to access a less burdensome reporting regime.

[3] Section 4.6 of "Auditor regulation - Discussion document on the implications of the EU and wider reforms" published by BIS in December 2014 specifically considers this issue.

2. Introduction

2.1 Financial reporting is a vital component in maintaining effective business relationships. Informative and meaningful financial reporting is key to supporting vibrant financial markets and continuing economic growth. In implementing the provisions of the new Accounting Directive, the Government's priority is to maintain the integrity of, and confidence in, the UK's well-respected accounting and financial reporting framework. The UK's framework must continue to provide high quality information for users/third parties such as creditors, shareholders and regulators. The Directive does not set out to make significant changes to the fundamentals of the EU financial reporting and, as such, most of the Member State options previously available have been retained.

2.2 The Government consulted on its approach to the implementation of the new Accounting Directive from 29 August 2014 to 24 October 2014. The consultation document noted those areas where a mandatory change was imposed and set out the Government's proposals where a new option was available or where it was intended that an established position is should be changed. The Government also took the opportunity to consider changes to the accounting regime in response to issues raised during the Company and Commercial Law Red Tape Challenge process.

2.3 Throughout the implementation phase, the Government has worked with an expert working group which includes senior representatives from the accountancy and audit sector. The policy, and its supporting analysis, has been informed by discussions with that group in addition to the consultation responses received.

2.4 In total 33 responses were received. Many respondents took the opportunity to comment on all aspects of the consultation. Others choose to focus on topics of particular interest to them. There was broad support for our proposals. All responses to the consultation are available on the BIS website and can be viewed at https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting. A list of all organisations and individuals who responded is also provided in section 3.

2.5 The UK will transpose the Accounting Directive into UK law under the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 no later than 20 July 2015.

3. Responses Received

3.1 A total of 33 responses were received. Responses came from a variety of sources including business, representative bodies and national regulatory bodies. The table below summarises the split of respondents by category. In addition to the written responses to the consultation, the policy and its supporting analysis has been informed by discussions with an expert working group which includes senior representatives from the accountancy and audit sector.

Regulatory Bodies (3)

Charity Commission for England and Wales

Financial Conduct Authority (FCA)

Office of the Scottish Charity Regulator (OSCR)

Chartered Accountancy Bodies (7)

The Association of Accounting Technicians (AAT)

Association of Chartered Certified Accountants (ACCA)

Chartered Accountants Ireland

Chartered Institute of Management Accountants (CIMA)

Chartered Institute of Public Finance and Accountancy (CIPFA)

Institute of Chartered Accountants of England & Wales (ICAEW)

Institute of Chartered Accountants Scotland (ICAS)

Representative Bodies (2)

Institute of Chartered Secretaries and Administrators

Institute of Credit Management (ICM)

Individuals (2)

Dr Jill Collis

Professor Mike Page

Accounting Firms (10)

Baker Tilley

BDO LLP

Deloitte

Ernst & Young

Grant Thornton

HW Fisher

Kingston Smith

KPMG

PwC

Reeves & Co

Charities (5)

Association of Church Treasuries and Accountants (ACTA)

CARA

Charity Finance Group

Furniture Resource Centre Ltd

Kazaz and Company

Companies (4)

British American Tobacco plc

Business Information Providers Association (BIPA)

Creditsafe Group

Equifax Ltd

4. Analysis and Government Response

4.1 This section provides a summary of responses received against each question in the consultation document, followed by a statement of the Government's planned course of action.

4.2 Section 4 is set out in the order that questions were presented in the Consultation Document. Where appropriate, the Government analysis and responses for more than one question have been combined. Tables indicating numbers of "yes"/"no" responses to specific questions have been provided where this is relevant. Numbers of responses are not noted in respect of questions which sought information on costs/benefits or other evidence. As noted at paragraph 2.4, the full responses are available at https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting

The Government's Approach to Implementation

Q1 Do you agree that the Government should maintain the UK's existing approach to financial reporting and only introduce changes where imposed by the Directive or where new options have been introduced?

Response	Number
Yes	23
No	3
No opinion/not sure	6

There was very strong support for maintaining the UK's existing approach to financial reporting. Respondents believed that the Government should continue to provide a regulatory framework which will maintain the integrity and confidence in UK financial reporting. A number of respondents added that new options introduced by the Directive should only be considered if their incorporation in the current framework would be advantageous. Those opposed highlighted specific issues. One respondent was concerned that the deregulatory nature of the Directive would lead to an overall reduction in the level of information available for shareholders and creditors. Another commented that it would be beneficial to require companies to disclose their environmental and social impact.

Government's position: The Government will maintain the existing approach to financial reporting making changes only where this is mandatory or there are benefits for business.

Q2 Do you agree that the Government should maintain the current position of providing discrete regulations for small companies and for large and medium-sized companies?

Response	Number
Yes	22
No	2
No opinion/not sure	8

Amongst those who expressed an opinion there was majority support for discrete regulations for small companies and for large and medium-sized companies. Respondents believed that this reduced the possibility of confusion over which requirements apply to which companies. However two of these respondents questioned whether there was still a compelling argument to retain the medium-sized entity category. One respondent opposed to discrete regulations said that a single document which clearly indicated which requirements applied to specific categories of company would be clearer.

Government's position: The Government will retain discrete regulations for small companies and large and medium-sized companies.

Q3 Do you agree it would be helpful to have a new set of Small Companies and Group Regulations which set out the new small company regime and incorporate both the small companies' exemption and the micro-entities exemptions clearly and in one place?

Response	Number
Yes	20
No	5
No opinion/not sure	7

A majority of respondents agreed that it would be appropriate to have legal provisions for small and micro entities together in one place. It was commented that this would facilitate transition for entities moving from one regime to another at a point in their lifecycle when they are likely to be relatively unsophisticated from a financial reporting perspective. Those opposed expressed concern that the Micro Entity framework was different from, and much reduced compared to, the small company framework: it would be less confusing were the micro-regulations to be presented separately.

Government's position: The Government will continue to include the micro-entities exemption regime within the Small Companies and Group Regulations.

Q4: Do you have suggestions for other regulations that might reasonably be consolidated as part of the implementation of this Directive? If so, please provide references to the relevant regulations with an explanation for your proposal and the benefits you expect this would deliver.

Response	Number
Yes	6
No	17
No opinion/not sure	9

Suggestions for other regulations that might be consolidated included a call for the Small Companies and Groups Regulations to become the single source of "accounts and reports" requirements under the new small company regime and hence to include the relevant requirements that are currently embedded within the Companies Act 2006. Another respondent said that the Government should clarify the "confusing" position for charitable companies and the need for them to apply both charity law and company law accounting requirements, particularly for smaller charitable companies. It was also suggested that any consolidation should consider the regulations applicable to the accounts of Limited Liability Partnerships (e.g. SI 2008/1911,1912 and 1913) which needed to be reviewed.

Government's position: The Government will consider these proposals in more detail as part of the future work programme.

Timetable for Implementation

a. Transposition deadline

Q5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016?

Response	Number
Yes	22
No	2
No opinion/not sure	8

There was strong majority support amongst those who expressed an opinion for this date on the grounds that it provided the longest period permitted by the EU for companies to make the transition. One of the respondents who was opposed felt that the commencement date did not give companies sufficient time to prepare; the other that an earlier implementation date would accelerate delivery of the benefits.

Government's position: The Government will require mandatory application of the new regulations for financial years commencing on or after 1 January 2016.

b. Early Adoption

Q6: Should companies be able to access the new financial reporting regime (increased thresholds and revised reporting requirements) ahead of the mandatory application date of 1 January 2016?

Response	Number
Yes	16
No	9
No opinion/not sure	7

Amongst respondents who expressed an opinion there was majority support for permitting access to the new regime ahead of 1 January 2016. Those who supported this option believed that it would be in keeping with the de-regulatory approach of the Accounting Directive.

11 of these respondents also observed that permitting early adoption, instead of mandating an earlier application date, would help smaller medium-sized companies avoid the cost of a two-step transition to a new financial reporting framework: firstly through the mandatory application of Financial Reporting Standards (FRS 102) from 1 January 2015 and then to the new regulatory regime from 1 January 2016 (including the cost to small groups of preparing consolidated accounts). In practice a company applying FRS 102 for the first time in 2015, which then qualifies as small in 2016 under the new thresholds, would be able to follow the small company accounting regime in their 2016 accounts. Therefore without the possibility of early adoption, such a company would have to apply two new accounting regimes in consecutive years.

Those against expressed concern about the lack of consistency and problems with comparability if companies adopted the new regime at different times.

Government's position: The legislation will permit companies to access the new financial reporting regime ahead of the mandatory application date.

The Proposal

Size categories

Q7: Do you agree with the Government's proposal to maximise the small company thresholds and provide as many eligible companies as possible with the opportunity to access the small company regime?

Response	Number
Yes	15
No	8
No opinion/not sure	9

Q8: We have been able to draw on academic studies and responses to earlier consultations but we would welcome any additional information/evidence you are able to provide to support your response. What benefits or costs do you think will arise from raising the company size thresholds? (Information may relate to both monetised and non-monetised benefits and costs.)

The majority of respondents who expressed an opinion on **Q7** agreed that we should adopt the maximum thresholds permitted by the Directive for small companies. One respondent said, "this allows a greater proportion of companies to be able to take advantage of the smaller company regime and thus reduces the reporting burden upon them". Another stated that "In our view to set a lower threshold would reduce the competitiveness of smaller UK companies not only domestically but also internationally, in particular with other EU Member States that are intending to take advantage of the maximum thresholds permitted…small companies are permitted to prepare accounts following the requirements applicable to larger companies or provide more information if they choose to do so and that choice remains irrespective of the statutory threshold".

Those against (and a number of those who used the "not sure" option) expressed concern that any increase in the thresholds would lead to a decline in financial discipline and transparency. Opponents also expressed concern that the option could lead to a reduction in information available to support credit decisions and a consequent impact on the availability of trade credit. It should be noted that two of those in favour expressed similar reservations. These included concern about the quality of information that would be publicly available and the possibility of accounting "becoming the preserve of experts whose judgement will be focused on the largest of entities".

Regarding the costs and benefits that might arise from the raising the company size thresholds (**Q8**) respondents were less forthcoming. One respondent commented that, "Cost savings for stand-alone companies, that are currently medium-sized but which following the proposed changes will be small, will in our view be minimal. Greater cost savings will however be applicable to any parent companies which become able to take advantage of the small company financial reporting regime as they will be relieved of the requirement to have to prepare consolidated accounts for the group which they head". However regarding monetised savings that might be realised by increasing the threshold the respondent added that it was not possible, "to provide any actual amounts as the cost savings for such parent companies will vary from entity to entity and depend on factors such as the number of subsidiary undertakings in the group".

Government's position: The small company thresholds will be increased to the maximum permitted by the Directive.

Reference point for calculating thresholds

Q9: Do you agree that the Government should continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees?

Response	Number
Yes	25
No	0
No opinion/not sure	7

Amongst those who expressed an opinion support for this option was unanimous. In the words one respondent, "Using three indicators to measure a company's size: balance sheet total, net turnover and average number of employees, allows size to be determined by multiple dimensions to account for variance in different company types".

Government's position: The Government will continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees.

Q10: Do you consider that there are circumstances where the Government should include other sources of income as net turnover for the purposes of determining company size?

Response	Number
Yes	13
No	8
No opinion/not sure	11

Most respondents were either unsure about or opposed to the prospect of amending the definition of net turnover. Those opposed expressed the view that turnover was a stable and well-understood definition. There was concern that, in certain situations, an amended definition could add complexity and volatility to the reporting process. One respondent added that, "Income from exceptional, extraordinary and isolated transactions may give rise to turnover thresholds being exceeded, whilst the entities revenues derived from its normal operations remain below the thresholds".

It was noted that certain types of entity may not provide goods or services or may derive most of their income from other sources. Those who supported the inclusion of other sources of income within net turnover cited income from investments, property lettings, "dividends paid" and grants as items which might be included. For example, it was thought that the inclusion of donations within net turnover might usefully help to determine the most appropriate size for charitable companies. However, it was acknowledged that in some instances application of the Companies Act requirements to such entities is addressed in sector-specific regulation.

Government's position: There will be no change to the definition of net turnover at this time.

Q11: Do you consider that there are circumstances (beyond those already in the UK accounting framework) where it would be appropriate to require:

(a) parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or
(b) "affiliated undertakings" to calculate their thresholds on a consolidated or aggregated basis?

Q12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions?

Of the 13 respondents who expressed an opinion on **Q11** only 3 supported a change in the calculation of size thresholds from those in the current UK accounting framework. Of these only one expressed a preference: option a. Another who supported a change commented that, "Would be a useful anti-avoidance measure and provide disincentives to forming complicated networks simply to hide information and avoid scrutiny".

The general view was that the current approach worked well and was easily understood. One respondent commented that there was no benefit to amend the approach for affiliated undertakings, "whose size should be determined by their own circumstances and not those of the wider group".

Regarding **Q12** the majority of respondents who expressed an opinion preferred the continuation of the current requirements in sections 383 and 466 of Companies Act 2006, i.e. no change to the current position where the size limits for a parent are assessed based on the size of its subgroup. Of the two respondents who supported a change one opted for option "a" (a reason was not given). The other did not express a preference but commented that, "to avoid abuse of the reduced disclosures available to small companies, parent and affiliated undertakings required to prepare group accounts should also have their size determined by group totals for the purposes of all disclosures in their financial statements".

Government's position: No change will be introduced. Note that the existing financial reporting framework already requires a parent company to have regard to the size of the group that it heads when deciding whether it is eligible for the exemptions.

New small company regime

Notes to the accounts

Q 13: The Accounting Directive offers an option to reduce from 13 to 8 the number of mandatory notes required from small companies. Do you agree with the Government position to continue to require the five notes listed at paragraph 8.18?

Response	Number
Yes	23
No	1
No opinion/not sure	8

Q 14: Should the requirement for the five additional notes be set out in regulations or should the need for additional notes be set out in accounting standards? (Regulation/Accounting Standards)

Response	Number
Standards	9
Regulations	13
No opinion/not sure	10

Amongst those who expressed an opinion on **Q13** there was almost unanimous support for the Government position that all 13 notes should be mandated. Two respondents commented that the additional notes were not going to be relevant in every set of accounts, and should not be onerous or burdensome for small companies. An example given was that not all companies would have post balance sheet events to report, but where post balance sheet events are material, disclosure would in any case be necessary in order for the accounts to show a true and fair view. The single respondent who did not agree with the proposal argued that any additional notes permitted in the Directive should be covered by the Financial Reporting Standards. Another respondent, who did not indicate a position, expressed "serious reservations" about any reduction in the number of notes from the current requirements on the grounds that "the proposals create an unacceptable gap between the legal requirement for directors to ensure the accounts are true and fair and the disclosure regime that supports this assessment".

The majority of respondents who expressed a view on **Q14** believed that the requirements for five additional notes to the accounts should be set out in accounting regulations (i.e. by Statutory Instrument). The main reason given for favouring regulations was that capturing the notes in legislation would provide a clear point of reference.

Those who believed that the requirements should be covered in the standards took a similar line to the respondent who commented that "We would prefer to keep detailed accounting disclosure requirements in company law to a minimum so we support the requirement for the additional notes being included in accounting standards, rather than in regulations".

Government's position: The requirement for 13 mandatory notes will be set out in regulations.

Preparation of an abbreviated balance sheet and profit and loss account

15: Do you agree that small companies should have the choice of preparing an abbreviated balance sheet and profit and loss account if they wish?

Response	Number
Yes	8
No	21
No opinion/not sure	3

Q16: If small companies were permitted to prepare an abbreviated balance sheet and profit and loss account, please indicate if there are any line items which you would consider it essential to retain to support the presentation of a true and fair view of a company's financial position? Please explain.

Q17: What benefits or costs might a small company see from deciding to prepare an abbreviated balance sheet and P&L? Evidence in support of your view would be helpful.

The majority of respondents to **Q15** were opposed to permitting the preparation of abbreviated balance sheets. The views of these respondents were encapsulated by the respondent who stated that, "Small companies currently have the option to file abbreviated accounts that don't include P&L and include only limited notes. However since small companies have to prepare full accounts for members and investors a fuller picture of the state of the company can be obtained. Abbreviated accounts would be a retrograde step. Since small company accounts are produced on accounting software cost savings will be minimal as the same information will need to be entered. Furthermore abbreviated accounts would not show a true and fair view".

Those in favour argued that small companies should have the freedom to choose the type of accounts they prepare and ensure they understand the benefits and costs associated with this option.

The majority of respondents to **Q16** used this question as an opportunity to restate their opposition to the use of abbreviated accounts. The respondents who did suggest items for inclusion listed items that if included would mean the accounts could no longer be considered abbreviated.

Respondents to **Q17** identified that the benefits of producing abbreviated accounts may be outweighed by costs arising from the potential reputational damage caused by less information for creditors and shareholders. However, others suggested that there would be benefits: the need for external advisers may be reduced; commercially sensitive data could remain private; and less detailed accounts may be easier to understand.

Government's position: It is important that shareholders receive appropriate information on the performance of companies in which they invest. Therefore, small companies will only be permitted to prepare abbreviated accounts with the consent of all members of the company.

Small groups exempted from the requirement to produce consolidated accounts

Q18: What benefits do you believe exempting small groups from consolidation will offer to small groups of companies? (Para 8.22) Evidence in support of your view would be helpful.

Respondents commented that exempting small groups from consolidated group accounts would reduce burdens. They noted that the increase in thresholds for small groups would increase the number of groups that could take advantage of the exemption. However respondents did not provide data on possible savings that would have enabled us to refine the estimates in the Impact Assessment.

Some respondents were sceptical of the benefits offered by this exemption commenting that many small groups are already exempt from preparing consolidated accounts under the Companies Act 2006. Three respondents were concerned that the extension of the exemption would damage the integrity of UK accounts by reducing transparency of small groups and cloak poor practices such as “intra-company” trading.

Government’s position: The Government is required to exempt small groups from consolidation unless a public interest entity is a member of the group.

Exclusions from the Small company regime

Q19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market?

Response	Number
Yes	3
No	19
No opinion/not sure	10

The majority of respondents were opposed to the option to only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market. A number of respondents opposed to this option commented that non-traded public companies have the option to re-register as a private company should they wish to avoid being caught by the exclusion.

Those in favour of this option took the view that so long as an unquoted public company`s securities were not traded on any regulated markets they should have the freedom to take advantage of the small company accounting regime. They considered it was likely that those companies which have ambitions to have their securities admitted to trading on a regulated market would arrange their financial reporting accordingly.

Government’s position: All public companies will continue to be excluded from the small companies accounting regime.

Q 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime?

Response	Number
Yes	12
No	9
No opinion/not sure	11

The majority of respondents who expressed an opinion considered that companies within a group containing a public company should be permitted to access the small companies accounting regime. A respondent observed that the accounts of the individual subsidiaries were not as important to the investors as the consolidated accounts, or individual accounts of a public company (if it was not a parent). Another wrote that "We believe this could substantially reduce the reporting burden for otherwise small companies within what are currently termed "ineligible groups"". The same respondent suggested that the Government should go further, and "take advantage of the opportunity to remove the concept of an "ineligible group" from company law".

Those who believed that current exclusions should continue to apply (i.e. that companies that are members of a group which includes a public company should not have access to the small companies regime) questioned the case for re-opening an existing settled position. Concern was also expressed that such a change might result in groups which include a public company being constructed in a contrived manner in order to bring subsidiaries within the small companies regime.

Government position: The Government will permit companies that are members of a group which includes a public company which is not a company whose securities are traded on a regulated market to access the small companies' accounting regime.

Medium-sized and Dormant company regimes

Exclusions from the medium-sized companies accounting regime

Q21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market?

Response	Number
Yes	5
No	15
No opinion/not sure	12

The responses were similar to those to **Q19** regarding exclusions of public companies from the small company accounting regime. The majority view of those who expressed an opinion was that the existing exclusions from the medium-sized accounting regime should be maintained and therefore that all public companies should be excluded. One respondent did however suggest the public companies which did not "make offers to the public" should be able to benefit from the exemptions. Two respondents argued that Government should consider abolishing the medium-sized companies regime.

Those who supported the option to expand the exclusions from the medium-sized companies regime reiterated their responses given in respect of the small companies regime i.e. that there was no reason to apply the exclusion to companies that did not have securities which were publicly traded.

Government's position: All public companies will continue to be excluded from the medium-sized companies regime.

Q 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime?

Response	Number
Yes	12
No	10
No opinion/not sure	10

The responses were similar to those for Q 20 on access to the small companies accounting regime and many of the respondents referred back to their earlier comments. The majority of those who expressed an opinion considered that the Government should allow companies that are members of a group which includes a public company to access the medium-sized companies regime. One correspondent said, "The presumption that a company should be subject to a greater reporting burden simply because a fellow group member is a public company is erroneous, and we are of the opinion that removing this presumption would be of significant benefit".

Those opposed to this option also referred to responses to earlier questions where they raised concerns about the danger of anti-avoidance and lack of consistency. Only one respondent felt that a distinction for eligibility for the exemption should be drawn between small and medium-sized companies. Another respondent suggested that a distinction should be made according to whether the public company had publicly offered shares "only plcs with limited numbers of private shareholders and no intention of offering shares widely / publicly should be able to access the medium-sized company regime".

Government's position: The Government will permit companies who are members of a group which includes a public company which is not a company whose securities are traded on a regulated market to access the medium-sized companies' regime.

Exclusions from the dormant companies accounting regime

Q23 Do you consider that the exclusions from the dormant subsidiaries accounting exemptions (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded from the exemptions because they have securities traded on a regulated market rather than because they are quoted companies?

Response	Number
Yes	6
No	10
No opinion/not sure	16

b) Companies are excluded from the exemptions if they are part of an "ineligible group" under that definition as amended for the purposes of the small companies accounting regime?

Response	Number
Yes	7
No	11
No opinion/not sure	14

In summary there was a mixed reception for both of these options, with a large number of respondents preferring not to express an opinion. A number of respondents (including those who selected the "not sure" option) expressed the view that in practice "very few" companies would be eligible for this exemption. However it was interesting to note that option (a) did have the support of three of the accounting firms who responded. One believed that option (a) brought "the definition for companies with publicly-traded securities into line with that used in the small companies regime"; another that it should lead to the use of consistent criteria and terminology and consequently increase transparency. However this respondent also expressed the view that "In practice, this would only relax the requirements for companies traded on the NYSE or NASDAQ, which are generally unlikely to be dormant".

Government's position:

(a) The exemption will be amended to exclude companies whose securities are traded on a regulated market rather than those who are quoted companies. This will support the de-regulatory objectives of the Accounting Directive.

(b) Having considered whether also to exclude companies that are members of an ineligible group, we have concluded that this is not necessary. As opinion among respondents to the consultation also appears to be divided on this question we have concluded there is an insufficient basis for revisiting the original policy behind the implementation of these accounting exemptions in 2012.

Reduced options for Profit and Loss account formats

Q 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies?

Response	Number
Yes	23
No	1
No opinion/not sure	8

Respondents strongly agreed that this option would not cause significant issues as Formats 1 and 2 were most commonly used by UK entities. Furthermore the Accounting Directive (Article 9) permitted adaptation of the presentation when required due to the special nature of an undertaking.

Government's position: The regulations will be amended to include only Formats 1 and 2 of the P&L as required by the Accounting Directive.

Greater flexibility within layouts

Q 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)?

Response	Number
Yes	19
No	2
No opinion/not sure	11

Q 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why?

Response	Number
Regulations	5
Standards	8
Both Standards and Regulations	7
No opinion/not sure	12

Amongst those who expressed an opinion there was strong majority support for increased flexibility in the customisation of the profit and loss account and balance sheet. However, some expressed reservations saying that departures from the specific formats should be delegated to the Financial Reporting Council to approve to control diversity. There was also concern about whether this option would fully permit the use of IFRS formats. To quote one respondent, "We consider that the Government should work towards a solution that allows companies applying FRS 101 to prepare accounts with the same formats as used under EU-adopted IFRS in order to alleviate potential incomparability. The status quo is currently unsatisfactory as format and measurement changes are required from EU-adopted IFRS used for group reporting to the UK GAAP compatible Companies Act formats and measurements when presenting single entity financial statements under FRS 101". Another respondent stressed the importance of making comparisons between different sets of accounts.

The two respondents who opposed this option pointed to the costs arising from diversity and importance of comparability.

Stakeholders did not express a clear preference on the mechanism for enabling this option.

Government's position: The Government will legislate to enable increased flexibility in the presentation of the profit and loss account and balance sheet. The Financial Reporting Council may provide guidance on the use of this flexibility through its financial reporting standards.

Individual Accounts – Accounting for participating interests using the equity method

Q 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements?

Response	Number
Yes	15
No	3
No opinion/not sure	14

The majority of respondents expressing an opinion believed that the equity method should be available as an option. Several respondents provided detailed replies on this issue. Two respondents referred to the availability of the equity method under IRFS as an important factor in their preference. It was also commented that the equity method in individual company financial statements could provide users with a better understanding of the company's financial position and activities but that it adds complexity to the preparation process.

Those opposed to this option questioned the relevance of the change to UK accounts. One respondent feared that this would "confuse individual accounts with consolidated accounts".

Government's position: The Government will enable the use of the equity method in individual company financial statements.

Changes in value adjustments including goodwill

Q28: Do you agree that the Government should provide for the 10 year maximum period for goodwill write-off offered in the Accounting Directive?

Response	Number
Yes	15
No	4
No opinion/not sure	13

The majority of respondents who expressed a view believed that in the absence of a reliable basis to measure the life of goodwill, it was prudent to require that a maximum life of 10 years is assumed. It was also commented that FRS 102 would need to be amended to reflect any change in the law.

Government's position: In the *exceptional* circumstance where the useful life of goodwill cannot be reliably estimated, the Government will require that it shall be written off over no more than 10.

Information on subsidiaries included within the consolidated financial statements

Q29: Do you agree that the removal of the option to provide information on subsidiaries included in a consolidation as part of a company's Annual Return should take effect alongside other changes to the UK's financial reporting framework?

Response	Number
Yes	15
No	3
No opinion/not sure	14

Although a substantial majority of respondents who expressed an opinion agreed with this approach, almost as many were uncertain. Also, although not the purpose of the question, three respondents opposed the underlying proposal to remove the option.

The general view was that it was helpful to minimise the number of occasions when changes were introduced. However an opponent of this approach commented that, "We believe the objectives of the amendment could be met by companies disclosing their principal subsidiaries, and if necessary a clear statement that the list is not complete, and where the complete list may be obtained (such as the company's website). This would seem a small additional step for those users for whom a list of principal subsidiaries was not sufficient and be of benefit to users in general through reducing clutter".

Government's position: The removal of the option to provide information on subsidiaries included in a consolidation as part of a company's Annual Return will take effect no later than 1 January 2016. The Government will consider if amendments to the Annual Return process, being introduced by the Small Business, Enterprise and Employment Bill, require the change to take effect at an earlier date.

Removal of the requirement for Micro-entities to prepare a Directors Report

Q30: Do you agree that the companies eligible to take advantage of the micro-entity regime should be relieved of the obligation to prepare a Directors' Report? What costs or benefits would result from this change?

Response	Number
Yes	17
No	6
No opinion/not sure	9

The majority view was that, given the already limited requirements for the content of the Directors' Report when a company adopts the micro-entity regime, micro-entities should be relieved of the obligation to prepare a Directors' Report. It was observed that the directors and shareholders of such companies are likely to be the same individuals making the need for a directors' report unnecessary.

Regarding costs a respondent commented that "we cannot see that there are likely to be any significant costs as a result from this change. There will be a marginal benefit in terms of reduced preparation time for the annual accounts".

Government's position: The Government will remove the obligation for micro-entity companies to prepare a Directors' report.

Implications for the UK's Approach to Statutory Audit

a. Audit Exemption

Q31: Do you agree that the thresholds for the small companies audit exemption should remain unchanged for the time being i.e. that the thresholds for the audit exemption should not be increased in line with thresholds for the small company regime for accounting purposes at this time?

Response	Number
Yes	18
No	5
No opinion/not sure	9

The majority of respondents believed that small company audit exemption thresholds should remain unchanged for the moment. Of those who supported a separation of the thresholds, four could be considered to be against any increase in the audit threshold in principle. These respondents stressed that audit was a useful safeguard to ensure the accuracy of published financial information. Two acknowledged the practical problems of separating the thresholds (so that some companies able to access the small companies accounting regime would be unable to access the small companies audit exemption). However the majority were not opposed to an increase in principle, though they felt that any future increase ought to be consulted upon separately.

Those opposed to separating the thresholds pointed out the practical advantage of keeping audit and accounting thresholds aligned. Among the views expressed were that, "The simplicity when the thresholds were aligned in 2012 is welcome". It was commented that those that benefit from audit will continue to have their accounts audited on a voluntary basis. Another suggested that the Government should "set the small company [accounting] threshold at the minimum level required by the Directive and there would then be no need to decouple the small company accounting and auditing provisions. This would enable some additional companies to take advantage of the audit exemption whilst maintaining the exemption threshold at a sensible level".

Government's position: For the implementation of the Accounting Directive we will not take action to de-couple the link between the small company thresholds for accounting and audit purposes. This will maintain the status-quo and permit audit exemption thresholds to rise automatically in step with the increase in the small company accounting thresholds.

However the Government is already seeking stakeholder views on whether new separate lower thresholds should be introduced for the small companies audit exemption. Section 4.6 of "Auditor regulation - Discussion document on the implications of the EU and wider reforms" published by BIS in December 2014 specifically considers this issue.

If the Government decides in the light of responses to that document that specific audit exemption thresholds should be introduced to the Companies Act, it would be possible to do this in 2015. However the document makes clear that this is not the Government's preferred approach and seeks responses to the view that the same thresholds should continue to apply for both audit and accounting.

Q 32: Do you consider that the exclusions from the small companies audit exemption should be amended so that:

a) Small companies are no longer excluded simply because they are public companies, though they are excluded if they have securities admitted to trading on a regulated market?

Response	Number
Yes	6
No	15
No opinion/not sure	11

b) Small companies are only excluded if they are part of an "ineligible group" under this definition as amended for the purpose of implementing changes to the small companies accounting regime?

Response	Number
Yes	7
No	12
No opinion/not sure	13

In response to **part (a)** of this question, only a minority supported an amendment so that companies in the same group as a public company would be able to access the small companies audit exemption unless the public companies had securities traded on a regulated market.

Meanwhile a slightly larger minority supported the suggestion in **part (b)** of this question that small companies should be excluded from the small companies audit exemption regime if they are part of an "ineligible group" under the definition as amended for the small companies accounting regime. Several respondents who supported this took the view that, as a minimum, any company that is publicly traded should be excluded from any statutory audit exemption (including AIM companies). One of these respondents conceded that there may be some room

to debate whether public companies in name only should be able to take advantage of the small companies audit exemption but suggested it may well be simplest to exclude all public companies.

It was not clear what the preferred approach of respondents would be if a specific definition of an “ineligible group” was used for the purpose of the small companies audit exemption. Three respondents highlighted the need for consistency between the small companies audit exemption and accounting exemptions.

An important point to note is that whilst some respondents marked the box saying 'no' in response to Question 32b, their follow-up comments suggested they agreed that small companies in the same group as a public company should be allowed to access the audit exemption. For instance, one respondent said "…we believe a small company should not be prevented from taking the exemption simply because another entity within the group is public…". Another said "…we believe that the exclusions from the small companies audit exemption should be amended such that they are consistent with the exclusions from the small companies accounting regime…”.

Having looked again at the question, we can see how respondents could have been confused as to whether to answer "yes" or "no". There is also a possibility that some respondents to this question considered it to be seeking views on two alternatives. This was not the intention.

Government position:

(a) Having considered the responses to this question and also the merits of consistency as between the small companies accounting regime and the small companies audit exemption, we have concluded that public companies should continue to be excluded from the small companies audit exemption.

(b) We believe that in this case the minority of stakeholders made a good argument to proceed with the change. While one respondent stated that in their view the same rule should apply for the small companies accounting regime and the small companies audit exemption, another took the view that there was insufficient justification for introducing inconsistencies in this area. We agree with these views.

It was important for us to consider the responses to Question 32b in the light of the earlier Question 20. Question 32b explicitly referred back to the changes proposed for the accounting regime and considered in Question 20, where the majority of respondents who had an opinion were in favour of this change. In the interests of reducing burdens and simplification we consider companies in the same group as a public company should be able to access both the small companies accounting regime and small companies audit exemption.

Q 33: Do you consider that the exclusions from the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded because they have securities admitted to trading on a regulated market rather than because they are quoted companies?

Response	Number
Yes	8
No	9
No opinion/not sure	15

b) Companies are excluded if they are part of an "ineligible group" under that definition as amended for the purpose of implementing changes to the small companies accounting regime?

Response	Number
Yes	5
No	13
No opinion/not sure	14

A small majority of those who expressed an opinion on **option (a)** stated that companies that are quoted companies, together with other companies that have securities admitted to trading on a regulated market, should be excluded from the subsidiaries audit exemption with parental guarantee. However, two respondents who supported this also highlighted the importance of consistency with the small companies regime whereby any company whose shares are publicly traded (such as on AIM which is not a regulated market) should be subject to audit. Another respondent noted that "market regulation will generally require such companies to be audited in any event so the proposed change may not have a significant effect in practice".

Those in favour of **option (b)** were less forthcoming about their rationale. However, one respondent did comment that, "For market confidence we would like to see companies which are members of an ineligible group subject to audit".

Government position:

(a) It is a requirement of the new Accounting Directive to exclude all Public Interest Entities from the audit exemption for subsidiaries with parent company guarantees. This means that the first amendment discussed above will need to be made in the implementing regulations.

Though it may be open to us to maintain the current additional exclusion from the exemption of those quoted companies that only have equity share capital admitted to trading on the New York Stock Exchange or the Nasdaq, we do not think this is necessary.

(b) Having considered whether also to exclude companies that are members of an ineligible group, we have concluded that this is not necessary. As opinion among respondents to the consultation appears to be divided on this question we have concluded there is an insufficient basis for revisiting the original policy behind the implementation of the subsidiaries audit exemption in 2012, especially as this would be a regulatory change.

Q 34: Do you consider that the exclusions from the dormant companies audit exemption should be amended so that:

a) Companies are excluded if their securities are traded on a regulated market?

Response	Number
Yes	14
No	6
No opinion/not sure	12

b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing the small companies accounting regime?

Response	Number
Yes	6
No	12
No opinion/not sure	14

A majority of those who expressed an opinion in response to **option (a)** of the question supported the suggestion that companies should be excluded if their securities were traded on a regulated market. However one respondent felt that it would be “extremely unlikely that a company with securities admitted to trading on a regulated market would ever meet the definition of a dormant company”. Another respondent who supported option (a) commented

that "While there may be limited value in requiring a dormant entity to have an audit, such an audit should not be too onerous or costly (if the company is indeed dormant) and for companies traded on a regulated market it may be perceived that there is a public interest benefit in the audit confirming the numbers and that the entity is dormant. There have been instances where 'shell companies' whose securities are traded have attracted adverse public comment, however these may still have some transactions and hence may not be considered 'dormant'".

A majority of those who expressed an opinion in response to **part (b)** of the question were against the suggestion that companies that are members of an ineligible group, should be excluded from the dormant companies audit exemption. However there was little by way of further explanation.

Government position:

(a) All Public Interest Entities will be excluded from the dormant companies audit exemption as required by the Accounting Directive.

(b) Having considered respondents' views, the Government agrees that companies that are members of an ineligible group for the purpose of the small companies accounting regime, need not necessarily be excluded from the dormant companies audit exemption. If the company has had no transactions we see no reason to exclude it from audit exemption. The regulations will be amended.

b. Audit Report

Q 35: Do you agree that Article 28(2)(e) of the Audit Directive, as inserted by Article 1 paragraph 23 of the Audit Directive 2014/56/EU, should be implemented with the changes included in the new Audit Directive?

Response	Number
Yes	19
No	0
No opinion/not sure	13

A clear majority of respondents believed that it was sensible to implement Article 28 (2)(e) of the Audit Directive on the framework governing the auditors opinion and statement at the same time as the Accounting Directive in terms of clarity. However one respondent (a large audit firm) believed that the interpretation of Article 28(2)(e) required clarification. It was unclear whether the required opinion on the 'management report' (Strategic and Director's reports in the UK) was intended to mean that the report included the required content or that the auditor had 'audited' all of the content in that report. There were differing requirements regarding auditors' responsibilities for the management report across the European Union. As a result, there is a risk that there will be different levels of understanding of what is expected and the related audit work effort across Europe.

However another respondent (also a large audit and accountancy firm) commented that, "the additional requirements for the auditor's opinion and statement set out in the Accounting Directive as issued in 2013 have the potential to require auditors to undertake significant

additional work, thus increasing audit costs. The text as amended by the 2014 Audit Directive provides a helpful clarification that the opinion and statement should be based only on the work undertaken in the course of the audit, and should be implemented at the same time as the implementation of the requirement in the Accounting Directive, to avoid the otherwise temporary increase in the regulatory burden".

Government's position: The Government will implement Article 28(2) of the 2006 Audit Directive, as inserted by the new Audit Directive (2014/56/EU) early, as part of the implementing regulations for the Accounting Directive.

Q 36: Are there any other changes made to Article 28 of the Audit Directive under Directive 2014/56/EU that you consider should be implemented at the same time as the changes introduced with the insertion of Article 28 of the Audit Directive by Article 35 of the Accounting Directive?

Only three respondents suggested any other changes to Article 28 of the Audit Directive. To quote, "Article 28 of the Audit Directive relates to the content of the audit report, we consider that this should be implemented at the same time as the changes made by the Accounting Directive". And, "changes in the audit directive relating to the content of the audit report should be implemented at the same time as the changes made by the Accounting Directive". Another respondent suggested an amendment to section 498 of the Companies Act 2006 on the duty of an auditor to report.

Government's position: The Government does not consider there is sufficient justification for any further implementation of the new Audit Directive as part of the implementation of the new Accounting Directive. All further changes to the audit regime will be considered as part of the implementation of the Audit Directive and Regulation. Please refer to the discussion document "Auditor regulation - Discussion document on the implications of the EU and wider reforms" published in December 2014.

Q37: Do you agree that the regulations[4] should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services?

If no, are there any types of medium sized company (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

Question 38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to small and medium sized public companies unless they have securities traded on a regulated market?

If no, are there any types of small and medium sized public companies (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

Question 39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to small and medium sized companies in the same group as a public company?

If no, are there any circumstances in which other small or medium sized companies within a group which includes a public company should be required to disclose the fees paid to their auditor for non-audit services?

Question 40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to small and medium sized companies that are members of ineligible groups?

Question 41: Do you:

a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or

b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts?

(a) or (b)?

[4] The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489).

Having considered the effects of the Accounting Directive on the disclosure of non-audit services further, we have concluded implementation of any changes here can await the implementation of the new Audit Directive and Regulation in 2016. As a result no discussion of questions 37 to 41 is included in this Government response.

Government position: Responses to questions 37 – 41 will be considered and summarised as part of the summary of responses to the summary of responses to "Auditor regulation - Discussion document on the implications of the EU and wider reforms". That discussion document was published in December 2014, with a deadline for responses of 19 February 2015.

Application to Charitable Companies

Q 42: Do you agree that there would be merit in specifically stating in regulations made under company law that the information provided in the notes to the financial statements of a company charity is not limited to the information required by the Accounting Directive?

Response	Number
Yes	27
No	2
No opinion/not sure	3

The majority of respondents believed that there would be merit in specifically stating in regulations made under company law that the information provided in the financial statements of a company charity is not limited to the information required by the Accounting Directive. The majority of those in favour believed that this would make it clear that information provided by charitable companies was not limited to that required in notes to accounts. Respondents also commented that references to charity law in the accounting regulations would help trustees not familiar with the "intricacies of accounting treatments". In a detailed response one charity respondents added that "This clarification in the company law regulations would then facilitate the work that the FRC and the joint SORP-issuing bodies could undertake to cut red tape for micro-companies that are charities, consistent with effective regulation of their compliance with the public accountability obligations of charities".

One of the respondents opposed to this measure commented that, "This would imply that there is a general rule that additional provision cannot be made unless specifically authorised by statute".

Government's position: Charitable companies are not the only business sector subject to additional sector-specific legislative requirements. Making a statement of this nature within the accounting regulations would be inconsistent with normal practice in legal drafting. Having considered this proposal further, we consider that it would be inappropriate to use the regulations to signpost the existence of additional reporting obligations in this way. Therefore, whilst recognising the level of support for the proposal, it has been decided that a statement to this effect will not be made in the regulations at this time. The Government will continue to work with the Charity Commissioners and the FRC to consider how best to assist the directors of charitable companies in understanding their obligations.

Q 43: Do you agree that the current flexibility in presentation of financial statements of charities, in particular the requirement for an income and expenditure account and to adapt the arrangement, headings and sub-heading of financial statements to reflect the special nature of the company's activities, should be retained?

Response	Number
Yes	30
No	0
No opinion/not sure	2

A majority of respondents believed that the current flexibility in the presentation of the financial statements of charities should be retained. It was commented that this flexibility was needed so that charitable companies could continue to prepare, instead of a profit and loss account, a statement of financial activities either incorporating an income and expenditure account or in addition to it. A respondent from the charity accounting sector added that "for regulatory purposes, charities needed to be able to report on their funding sources, trust capital as well as trust and corporate income, especially grants, donations and legacies, as well as investment income and trading income, and to report appropriately on their expenditure of resources in furtherance of their charitable purposes and also for fundraising purposes". A respondent from a large accountancy and audit company added that the flexibility should be increased on the grounds that, "…under the current requirements, charitable companies are required to include, as a prominent sub-total in the statement, the charity's net income/expenditure for the reporting period. This sub-total excludes items such as movements on capital endowments, which may be a significant item for many charities".

Government's response: The current flexibility in the presentation of financial statements of charities will be maintained.

Q 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities?

Response	Number
Yes	28
No	0
No opinion/not sure	4

The majority of respondents believed that a threshold based on gross income is more appropriate than its turnover for company charities. Most of these respondents who commented expressed the view that the current definition of turnover excluded income from non-exchange transactions such as gifts, legacies and grants. However one of these respondents countered that there was no need to change the companies legislation as "the gross income threshold is well defined in the Charities Act 2011 and as such charities cannot avoid audit due to the technicality of gross income v turnover alluded to in the Consultation Paper". Another respondent felt that further consideration was necessary before any legislative changes were made.

Government's response: The Government will work with the Charity Commissioners to consider the position of charities under the financial reporting framework.

5. Other issues arising

Since the consultation was launched, two further issues have been identified which impact on the implementation of the Accounting Directive. These are:

- The Accounting Directive does not permit medium-sized companies to abbreviate the profit and loss account at the publication stage. Consequently, the regulations will be amended to remove the option we currently provide for medium-sized companies to publish a modestly abbreviated form of the profit and loss account (two to four line items could be combined into one depending on the format adopted).

  We have assessed the impact of this change and judge that it will affect no more than 0.2% of all companies registered. The extent of the impact is likely to be mitigated by the raising of the small company thresholds which will allow an additional 11,000 companies, currently considered to be medium-sized, to access the small company regime.

- We identified opportunities to simplify our requirements concerning the audit of abbreviated accounts by aligning these more closely with those of the Directive. We will simplify UK law by removing the anachronistic “special auditors report” and replacing this with the simplified disclosures required by the Directive.

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