



Department
for Business
Innovation & Skills

**UK IMPLEMENTATION OF EU
ACCOUNTING DIRECTIVE**

Chapters 1-9: Annual financial statements, consolidated financial statements, related reports of certain types of undertakings and general requirements for audit

RESPONSE FORM

AUGUST 2014

UK Implementation of the EU Accounting Directive – Chapters 1-9: Annual financial statements, consolidated financial statements, related reports of certain types of undertakings and general requirements for audit

Consultation response form

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for this consultation is 24 October 2014

Name:

Organisation (if applicable): ACCA

Address: 29 Lincoln's Inn Fields, London WC2A 3EE

Please return completed forms to:

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Please tick a box from the list below that best describes you as a respondent.

<input type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Non-government standard setting/regulatory body
<input type="checkbox"/>	Charity or social enterprise
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Large business (over 250 staff)
<input type="checkbox"/>	Legal representative
<input type="checkbox"/>	Local Government
<input type="checkbox"/>	Medium business (50 to 250 staff)
<input type="checkbox"/>	Micro business (up to 9 staff)
<input type="checkbox"/>	Small business (10 to 49 staff)

	Trade union or staff association
✓	Other (please describe) Accountancy Body

SECTION 6. The Government's Approach to Implementation

Question 1: 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? (*Paras 6.3-6.4*)

✓ Yes

Please provide information in support of your answer:

Question 2: 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? (*Para 6.7*)

✓ Yes

Please provide information in support of your answer:

Separation of the small company regulations has been helpful for clarity for the vast majority of companies and as part of the think small first approach which we support.

Question 3: 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? (*Para 6.8*)

✓ Yes

Please provide information in support of your answer:

Question 4: 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. (*Para 6.8*)

✓ No

Please provide information in support of your answer:

We do not see any further regulations that could be conveniently combined with this. Unnecessary changes in legislation are on the whole to be avoided.

SECTION 7. Timetable for implementation

Question 5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016? (*Para 7.1*)

✓ Yes

Please provide information in support of your answer:

We believe that this application date is practical, in view of the need for consultation by BIS, and the time which some companies will need in order to prepare for the changes.

Question 6: 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? (*Para 7.2*)

✓ Yes

Please provide an explanation for your position. In particular, we would welcome information about the costs/benefits associated with your preferred option:

We believe that early adoption will assist in mitigating the effect of the differing application dates of FRS 102 and the EU Directive in UK law. We believe that this advantage outweighs the effect of inconsistent reporting between companies, which is a consequence of only some adopting early.

Without the ability to adopt early, certain companies will apply FRS 102 fully as medium-sized companies in 2016, but will then qualify as small from 2016. In this case, they would face two sets of changes in consecutive years which is to be avoided if possible.

One solution would be a delay in the implementation of FRS 102 until 1 January 2016. If this is impractical, in view of the FRC's long-standing plans for FRS 102, and the preparatory work already undertaken by reporters, then early adoption of the small company regime would be acceptable. We will instead point out to the FRC that we support the option to adopt early the changes to law as a result of the Directive and they need to prioritise the small company provisions in FRS 102 so as to be ready for that.

SECTION 8. The Proposal

Question 7: 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? (*Para 8.10*)

✓ Yes

Please provide information in support of your answer:

Maximisation of the threshold will benefit around 11,000 companies which will qualify as small, compared to adopting the minimum thresholds (which are similar to the current ones). We do not see that there would be a corresponding cost or disadvantage. We support the fact that companies will, as now, be able opt to exceed the minimum requirements.

Question 8: 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.) (*Para 8.10*)

Please see our answer to Qu 7 above.

Question 9: 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? (*Para 8.12*)

✓ Yes

Please provide information in support of your answer:

Question 10: 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? (*Para 8.12*)

✓ Yes

Please provide details of the circumstances in which you consider the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise. Information about the number of companies affected would be useful in assessing the impact of any change:

We support the inclusion of other income (including bank or investment income), unless it is exceptional.

For example, a trading company with a let property would add together turnover and the rent in other operating income. The surplus on the sale of a property for such a company (and for a property rental company) would be excluded as 'exceptional', though it would be part of the turnover for a property development company.

Usually the 'other income' will be small compared to turnover, although it is conceivable that it might not be, and therefore of importance to a company's size, income and cash generation.

Question 11: 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?

✓ No

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

The existing provisions are appropriate.

We believe that the concept of control is key here. In a group situation, a parent would consequently bring its direct and indirect subsidiaries into consideration when calculating the thresholds. It would not, however, be appropriate for a group company to aggregate with another group company solely because both are under the control of a third company.

Question 12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions? (*Para 8.13*)

✓ No

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

Not beyond the extent to which already reflected in the UK accounting framework.

Question 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? (*Para 8.19*)

✓ Yes

If no, please provide an explanation, indicating which, if any, of the five notes you believe should be mandatory for small companies:

(to support our 'Yes answer above)

Taking into account the content of the five notes in question, we continue to support their mandatory inclusion, as proposed by BIS.

The five notes encompass key information, such as post-balance sheet events and related party transactions. Even where these are not mandatory disclosures, preparers might still face a difficult decision over their inclusion, in view of the over-riding requirement for the financial statements to show a true and fair view.

Question 14: Should the requirement for these additional notes be set out in regulations or should the need for additional notes be set out in accounting standards? (*Para 8.19*)

✓ Yes

Please provide any information to support your views:

Yes – in regulations

The five notes will represent a legal requirement, arising from the UK Government's decision to exercise an option. It therefore appears appropriate for these to be set out in regulations, and they can be elaborated in accounting standards as necessary.

Question 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? (*Para 8.21*)

✓ No

Please provide information in support of your answer:

We consider the stewardship responsibilities of directors to the company's shareholders to be very important and transparency via the annual report and accounts are an important element in their discharge. In small companies shareholders and directors may often be the same, but that is certainly not always the case. At the very least companies should be required to seek shareholder approval, in order to adopt it.

In any event the abbreviated financial statements prepared for shareholders will not be the same as the abbreviated accounts which are filed. The cost savings for companies are therefore doubtful, or possibly almost neutral, to the extent that the production of financial statements is automated through software.

Question 16: 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. (*Para 8.21*)

As set out in our response to Qu 15 above, we do not support the option of preparing abbreviated financial statements for shareholders.

Question 17: 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 views would be helpful (*Para 8.21*)

As set out in our response to Qu 15 above, we do not envisage that the preparation of abbreviated financial statements for shareholders will result in cost-savings (or other non-cost benefits) which make this option worth taking up.

Question 18: What benefits do you believe exempting small groups from consolidation will offer to small groups of companies? Evidence in support of your views would be helpful (*Para 8.22*)

The current exemption from consolidation is a significant reduction in requirements and so cost saving for small groups.

Question 19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market? (*Para 8.24*)

✓ No

Please explain. If no, are there any types of public companies (other than those whose trading securities are traded on a regulated market) which should be allowed to access the small company regime (and why)?

See our answer to Qus 32-34 below. We are concerned that only companies that are listed on the main market would be included here. Other companies offering their shares to the public (for example via AIM) should be excluded from the small company regime. PLCs with limited numbers of private shareholders and no intention of offering shares widely should be able to access the small company regime.

Question 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime? (*Para 8.25*)

✓ Yes

Please explain. If no, are there any circumstances in which other small companies within a group which includes a public company should be allowed to access the small company regime (and why)?

As our response to Qu 19 above: only PLCs with limited numbers of private shareholders and no intention of offering shares widely / publicly should be able to access the small company regime. The same would apply to other members of the group which includes the PLC.

Question 21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market? (*Para 8.26*)

✓ No

Please explain. If no, are there any types of public companies (other than those whose securities are traded on a regulated market) who should be allowed to access the medium-sized companies regime (and why)?

See our concerns over the definitions under Qu 19 and Qus 32-34.

Question 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime? (*Para 8.26*)

✓ No

Please provide information in support of your answer:

As our response to Qu 19 above: 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. The same would apply to other members of the group which includes the PLC.

Question 23: 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 because they have securities traded on a regulated market rather than because they are quoted companies? (*Para 8.27*)

✓ No

Please provide information in support of your answer:

See our answers to Qu 19 and Qus 32-34, setting out our concerns over the scope of the public interest definition. However, we see the possibility of a quoted dormant company as extremely remote, in any event, and so any such requirements or exemptions as being of no practical importance.

b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purposes of the small companies accounting regime? (*Para 8.27*)

✓ Yes

Please provide any information in support of your answer:

See our responses to Qus 32 to 34 on the regulatory regime which should apply to such companies.

Question 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies? (*Para 8.29*)

✓ Yes

If no, please provide an explanation for the impact (for example, which companies and in what circumstances) and what its effects might be. Any evidence of the cost of the impact would be welcome.

We would see the flexibility in the formats within the law, for example to add lines, as providing sufficient flexibility in combination with two formats.

Question 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)? (*Para 8.30*)

✓ Yes

Please provide any information in support of your views here including any cost and benefits of providing greater flexibility in the use layouts.

If sector-specific layouts are suggested, please can you provide information on the need for such a layout within the sector, the issues the standard layouts currently present to that sector and the nature and value of any benefits greater flexibility might bring.

The option to access greater flexibility should be taken up. It could then be used appropriately. For example, greater flexibility might be appropriate for the different requirements for charitable companies, banking and insurance companies, and to allow a presentation in conformity with IFRS.

Question 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why? (*Para 8.30*)

✓ Yes

Please provide information in support of your answer:

Yes to both:

The examples above would entail a mixture of flexibility within legislation and in accounting standards (for example in the case of charities and IFRS).

Question 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements? (*Para 8.33*)

✓ Yes

Please provide any information in support of your views, including any costs and benefits of allowing this option:

This possibility should be allowed for in the legislation. FRS102 would not permit this at present, but this might change as IFRS are changing in this regard. The option should be taken up as otherwise, there is likely to be an impediment to future changes in UK accounting standards.

Question 28: Do you agree that the Government should provide for the 10 year maximum period for write-off offered in the Accounting Directive? (*Para 8.36*)

✓ Yes

Please provide any information in support of your views, including any reasons that the period should be kept to 5 years, or to any alternative period:

The maximum option in the Directive should be taken up to allow for the evolution of FRS102, so that it might be aligned with the IFRS for SMEs.

Question 29: Do you agree that the removal of this option should take effect alongside other changes to the UK's financial reporting framework? (*Para 8.38*)

✓ Yes

If no, please provide an explanation and indicate when the change should be effective and what the reasons are for this:

We agree that the list of subsidiaries is an important disclosure and is best done in the accounts and not separately potentially at another time.

Question 30: 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? (*Para 8.42*)

✓ Yes

If no, please provide information in support of your view and the value that the Directors' Report offers to a micro-entity company:

Though we did not support the development of the micro-regime, we accept that this is now a practical reality, and that the spirit of that regime is minimal disclosures of financial information about a company. In the light of that, a continuing requirement for a directors' report looks out of step. Furthermore, there is a widespread view that the directors' reports of the smallest companies disclose very little useful information.

SECTION 9: Implications for the UK's Approach to Statutory Audit

Question 31: 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? (*Para 9.5*)

✓ Yes

Please provide information in support of your answer:

Many interested parties, including ACCA, would be cautious about an increase in the audit exemption limit to the same extent as the small company accounting limit (Qu 7 above). The value often perceived to be added by an external audit indicates that an impact assessment would, at least, be needed. An indication of this 'value' is the number of larger preparers opting for an external audit, when they could claim exemption.

We note, but accept as a lesser risk, the fact that errors have arisen in the past as a result of two sets of requirements for audit exemption and for qualification as a small company.

Question 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? (*Para 9.10*)

✓ Yes

If no, are there any types of public company (other than those with securities admitted to trading on a regulated market) which should be allowed to access the small companies audit exemption?

See our response below Qu 34 for more detail.

- 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? (*Para 9.10*)

✓ Yes

If no, are there any circumstances in which small companies that are part of an “ineligible group” (as amended) should be allowed to access the small companies audit exemption?

See our response below Qu 34 for more detail.

Question 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? (*Para 9.10*)

✓ Yes

Please provide information in support of your answer:

See our response below Qu. 34 for more detail – we believe that the exclusion should extend to any company that offers its securities to the public, on the grounds of the public interest.

- 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? (*Para 9.10*)

✓ Yes

Please provide information in support of your answer:

See our response below Qu 34 for more detail.

Question 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? (*Para 9.11*)

✓ Yes

Please provide information in support of your answer:

See our response below Qu 34 for more detail – we believe that the exclusion should extend to any company which offers its securities to the public, on the grounds of the public interest.

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? (Para 9.11)

✓ Yes

Please provide information in support of your answer:

Information to support our responses to Questions 21, 23, and 32 to 34

PLCs which do not make offers to the public (or can otherwise be widely owned), and the groups of which they are a member

We believe that these should be able to benefit from the exemptions available for small or medium-sized companies / groups, subject to certain additional considerations:

- The PLC should be required to include a statement that the appropriate exemption has been claimed. Preparers and their external auditors should regard this statement as necessary for the financial statements to show a true and fair view.
- The consultation refers to exclusions for securities traded on a regulated market. Under EU law, this does not include AIM and other ‘entry’ markets, where securities are nonetheless offered to the public or otherwise could be owned widely. On the grounds of public interest, we would support an exclusion from medium / small company exemptions for these companies, as well as for those trading on a regulated market, as defined.

Other ineligible groups

We believe that the situation is somewhat different to that of groups which contain a PLC that does not make offers to the public. The group structure can facilitate the artificial movement of business from the entity which makes the group ineligible, to those which do not, and this may have regulatory implications. Consequently, we do not support the same relaxations for these groups.

Question 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? (Para 9.15)

✓ Yes

Please provide information in support of your answer:

We agree with the reason advanced in the consultation.

Question 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? (*Para 9.15*)

✓ No

Please provide information in support of your answer:

We suggest that the matter referred to in Qu 35 is the only matter that should be so treated.

Question 37: Do you agree that the regulations¹ should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services? (*Para 9.16*)

✓ Yes

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 public companies unless they have securities traded on a regulated market? (*Para 9.16*)

✓ Yes

If no, are there any types of 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 companies in the same group as a public company? (*Para 9.16*)

✓ Yes

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?

¹ The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489)

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 medium sized and small companies that are members of ineligible groups? (*Para 9.17*)

✓ No

Please provide information in support of your response:

This would be consistent with the above approach and we do not believe that users of financial statements value this information more highly purely because a company is a member of an ineligible group.

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? (*Para 9.20*)

✓ b

Please provide information in support of your response:

The exemption is itself a pragmatic one and we recognise that one of the impacts of the Audit Directive 2014/56/EU is an increase in the likelihood of there being subsidiary auditors that are not the group auditor. The users of the financial statements of a subsidiary with such auditors will not be as impacted by that fact than by the knowledge that, as a subsidiary, the results, financial position and cash flows may be bound up with those of the group.

We see little need to disclose, therefore, non-audit fees in the financial statements of such companies. Conversely, users of the group financial statements might be concerned to discover, for example, that the auditor of a significant subsidiary was receiving a high level of non-audit fees. Although the group auditor is required by standards of auditing to do sufficient work in such circumstances, there may nevertheless remain perceptions of threat to independence. On balance we prefer option (b).

SECTION 10: Application to Charitable Companies

Question 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? (*Para 10.6*)

✓ Yes

Please provide information in support of your view:

This would provide a possibly very useful confirmation for preparers of the financial statements of an incorporated charity.

Question 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? (*Para 10.7*)

✓ Yes

Please provide information in support of your view:

See our answer to Qu 25.

Question 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities? (*Para 10.8*)

✓ Yes

Please provide information in support of your view:

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒ Yes

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

✓ Yes

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