Fast track: EANCB validation
Origin: domestic
RPC reference number: RPC-3045(2)-BIS
Date of implementation: 1 January 2016

Regulatory Policy Committee

The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2015

Department for Business, Innovation and Skills

RPC rating: validated

Description of proposal

The proposal is to extend, to 31 December 2022, existing regulations that provide companies listed in the US or Japan with a longer time frame (beyond the usual 18 months) to comply with UK accounting requirements if they choose to relocate their headquarters to the UK. The proposal goes further than the existing regulations by providing a transition period of up to four years for companies to convert their accounts, rather than up to three years under the existing provisions. This avoids additional costs to business associated with the conversion of accounts within 18 months. Easing the regulatory burden in this way is intended to provide an incentive to companies to domicile in the UK.

The IA states that permitting a permanent use of a different set of accounting principles would introduce complexity into the UK's accounting framework and reduce consistency and comparability of company accounts for those who use them (e.g. investors, lenders, and creditors who use published financial information to inform their decision-making). The provision is not, therefore, intended to be permanent but it offers encouragement to companies considering domiciling in the UK while providing a clear indication that companies should adopt UK accounting principles in due course.

Impacts of proposal

The proposal would allow companies listed in the US or Japan, but wishing to domicile in the UK, to make use of an extended transition period to convert their accounts to comply with UK reporting requirements. This would allow companies to reduce the costs of transition (e.g. hiring additional external accounting resources) by allowing them to undertake the work required to convert their accounts over a longer period of time. The Department expects that, in practice, a small number of economically significant companies would make use of the extended transition period. This appears reasonable and is borne out by the results of a post-implementation review of the existing regulations.

The Department has not quantified any additional costs to business. From experience of the existing regulations, it identifies familiarisation costs only and expects these to be negligible. This is because the changes are minor and companies considering re-domiciling are likely to be large organisations with a good knowledge of international tax and accounting regimes.

Quality of submission

The impact assessment states that the post-implementation review of the existing regulations found the economic rationale underlying them remains valid. Further, as a result of evidence gathered through the review, the proposal is to renew the regulations and enhance the provisions by increasing the transitional period to four years. The impact assessment would be improved by inclusion of a discussion about introducing other forms of flexibility (e.g. regulations that are not time-limited) for the small number of companies transitioning to UK accounting requirements each year, also considering various options for the length of transition period. This discussion should include an assessment of the costs to investors and analysts of having to deal with multiple accounting systems.

According to paragraph 1.9.25 of the Better Regulation Framework Manual (March 2015), the expiry of a time-limited measure should be scored as an IN for OITO purposes. The Department goes on to explain that replacing the expired measure with an identical measure would, overall, score as zero.

In the assessment of the economic impacts, the Department calculates a higher EANCB figure for this extension proposal (a saving of £2.95 million) than for the existing measure (a saving of £1.1 million). This difference is driven by use of a different assumption about the number of affected businesses. It is not driven by a policy change or, more specifically, by the extension of the three-year transition period to four years. The Department has not monetised any benefits associated with extending the transition period beyond three years. The assessment that this measure should, overall, score as zero appears to be in line with the framework.

Initial departmental assessment

Classification	In scope
Equivalent annual net cost to business (EANCB)	£0
Business net present value	£25.8 million
Societal net present value	£25.8 million

RPC assessment[1]

Classification	In scope
EANCB – RPC validated	£0
Small and micro-business assessment	Not required (deregulatory)

Michael Gibbons CBE, Chairman

[1] RPC verification of the estimated EANCB is based on current working assumptions on the framework for the business impact target.