Title: The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2015	**Impact Assessment (IA)**
	Date: 03/11/2015
IA No: BISBE015	**Stage:** Fast Track Validation
Lead department or agency:	**Source of intervention:** Domestic
Department for Business Innovation and Skills	**Type of measure:** Secondary Legislation
Other departments or agencies:	**Contact for enquiries:** John Conway john.conway@bis.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Validated

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2014 prices)	**In scope of Business Impact Target?**	**Measure qualifies as**
£25.8m	£25.8m	£0m	Yes	Zero

What is the problem under consideration? Why is government intervention necessary?

UK companies use UK Generally Accepted Accounting Principles (GAAP) or International Accounting Standards (IAS) to ensure consistency in their financial reporting. UK GAAP is effectively a combination of UK company law and standards set by the Financial Reporting Council. IAS is set by the International Accounting Standards Board. Companies listed in the USA or Japan that chose to domicile in the UK are required to file their accounts using either UK GAAP or IAS, and to prepare their first set of accounts within 18 months of incorporation in the UK. This can sometimes lead to substantial costs for large parent companies, which are responsible for many subsidiaries (e.g. parent companies need to hire/train extra internal or external accountants to ensure the transition of the parent company accounts is completed accurately to this timetable). The Accounting Standards (Prescribed Bodies) (United States of America and Japan) regulations 2015 ("The 2015 regulations") remake and enhance earlier measures to give parent companies listed on stock exchanges in the USA or Japan, a longer timeframe (a maximum of four years) to convert to UK GAAP or IAS.

What are the policy objectives and the intended effects?

The regulations give parent companies listed on US and Japanese stock exchanges, who wish domicile in the UK, up to four years to comply with UK financial reporting requirements. This avoids additional costs associated with converting accounts within 18 months (e.g. hiring and training new internal and/or external accountants to ensure this is done accurately within legal deadlines). A longer transition period, by reducing costs (i.e. a longer timeframe reduces/removes the need for additional accounting resource) should help to attract companies to domicile in the UK and thus potentially increasing productivity, competition and innovation. Because companies are expected to have converted to UK GAAP or IAS after the transition period, (and thus move into in line with other UK-based companies), the regulations bring savings to business without undermining the comparability and transparency of the financial information reported by UK-based companies. The regulations remake earlier regulations ("The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2012 (the "2012 regulations") which allowed these companies to prepare accounts to Japanese or US GAAP for financial years within the period 2012 to 2014 (in effect a three year transition period).

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The 2012 regulations, which the 2015 regulations remake, have effectively expired as they only applied to accounting periods ending on or before 31 December 2014. The policy options are:

Option 1 - Do nothing: This would be consistent with the intention of the time-limited 2012 regulations, which effectively expired in December 2014, but would forgo the benefits to business and UK economy of re-making the regulations.
Option 2 – Extend the 2012 regulations to cover financial reporting for years indefinitely beyond January 2015. This would result in business benefits but reduce the comparability of accounts, increase the complexity of the UK's accounting framework, and could undermine the integrity of the UK's accounting framework/commitment to IAS.
Option 3 (<u>Preferred Option</u>) - Introduce new regulations (the "2015 regulations") to provide a longer transition period (up to four years) for US and Japanese parent companies to convert to preparing accounts to UK GAAP or IAS.

Will the policy be reviewed? Yes - 1 October 2020

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Baroness Neville-Rolfe Date: 12 November 15

Summary: Analysis & Evidence

Policy Option 3

Description: Provide an up to four years transition period for US or Japanese companies to convert to UK GAAP or IAS.

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 8	Net Benefit (Present Value (PV)) (£m)		
			Low: 0.0	**High:** 101.7	**Best Estimate:** 25.8

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0		0.0	**0.0**
High	0.0		0.0	**0.0**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised costs by 'main affected groups'

We have not monetised any identified costs (see box below) relating to Option 3.

Other key non-monetised costs by 'main affected groups'

Familiarisation costs are expected to be minimal per advisory company and per company which choses to domicile in the UK. It is assumed those advising US and Japanese companies on their domicile will be aware of the 2012 regulation and the 2015 regulations involve minor changes to these. Companies looking to domicile in the UK will be large, complex companies with a good knowledge of international legal and accounting regimes (including the 2012 regulations) and hence familiarisation with changes is expected to require little extra resource.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0		0.0	**0.0**
High	0.0		11.4	**101.7**
Best Estimate	0.0		2.9	**25.8**

Description and scale of key monetised benefits by 'main affected groups'

Under our best estimate one US/Japanese company per year will be impacted by the regulations, and benefit from an up to four year period to convert their accounts from local GAAP to UK GAAP or IAS. The monetised benefits arise from avoided cost (e.g. hiring additional internal or external accounting resource to complete the conversion in a shorter time) from having up to four years rather than up to eighteen months to convert accounts. Our best estimate of the discounted annual benefits is £2.9 million and our best estimate of the discounted total benefits to business / society is £25.8 million.

Other key non-monetised benefits by 'main affected groups'

The option protects the integrity of the UK's accounting framework and doesn't undermine its commitment to global accounting standards. In particular it sets a clear direction of travel and timetable for re-domiciling companies to adopt either UK GAAP or IAS and thus produce financial information for account users (e.g. investors, lenders, creditors) that is comparable to other UK based companies. Companies save money no longer having to pay their auditors to audit two sets of accounts that have been produced according to a local GAAP and UK GAAP or IAS.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

1) Our best estimate of companies affected is one per year (based upon evidence from the 2012 IA/PIR review); 2) Self-reported stakeholder evidence from the 2012 IA case study (uprated from 2012 to 2015 prices using HM Treasury GDP deflators) and 2015 PIR survey are accurate reflections of the avoided costs to business; 3) The monetised costs benefits arising to companies are spread evenly over the eight year appraisal period under each option; and 4) Familiarisation costs to advisors and companies will be minimal – and therefore have not been monetised.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of B.I.T.?	Measure qualifies as
Costs: 3.0	**Benefits:** 3.0	**Net:** 0.0	Yes	Zero

Evidence Base (for summary sheets)

A. Problem under consideration

1. UK financial reporting requirements should ensure an accounting framework that enables the financial performance of different companies based in the UK to be measured on a clear and comparable basis. This should not, however, place burdens on companies that are unnecessarily high or hinder the growth of the UK economy.

2. Companies that are incorporated in the UK prepare their accounts using UK Generally Accepted Accounting Principles (GAAP)[1], applying standards set by the Financial Reporting Council (FRC)[2], or International Accounting Standards (IAS) which are set by the International Accounting Standards Board (IASB)[3]. The aim is to ensure quality and consistency in the presentation of financial accounts so that users of the accounts (particularly company shareholders) can analyse and compare financial information. This should help to promote informed economic decision-making and better corporate governance within the UK economy.

3. US or Japanese companies that wish to domicile in the UK, which currently use other accounting frameworks or standards (e.g. US or Japanese GAAP), need to convert their accounts to UK GAAP or IAS. Before the introduction of the 2012 regulations[4] (which the 2015 regulations remake and enhance) a parent company from these countries[5] that incorporated in the UK would be required to file its first set of financial accounts in UK GAAP or IAS within eighteen months at Companies House.

4. Evidence from stakeholders (i.e. gathered for the preparation of the 2012 IA[6] and through a post implementation review (PIR) of the 2012 regulations[7]) suggests that for a large company involved in a complex sector; which operates in many countries; and has many subsidiaries; eighteen months is a challenging timeframe in which to convert their accounts. To do so accurately companies have to increase their accounting resource (e.g. by hiring or training up new internal accounting resource or purchasing-in external accounting resource (which can have a premium associated with it)). These would be avoided under a more lenient conversion period. The size and type of saving from a longer timeframe differ between companies. A longer transition period allows companies to reduce their reliance on external accounting resource, which can be more costly than internal accounting resource. Over a longer period, companies can complete the transition of their accounts

[1] For more details see: https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/The-future-of-UK-GAAP.aspx

[2] For more details see: https://frc.org.uk/

[3] For more details see: http://www.ifrs.org/About-us/IASB/Pages/Home.aspx

[4] For more information on the 2012 regulations see: http://www.legislation.gov.uk/uksi/2012/2405/made?view=plain

[5] The 2012 Regulations applied to US and Japanese companies because: 1) Before the introduction of the 2012 Regulations the accounting practices of Japan and the USA were deemed, by the European Commission, to be equivalent to IAS, but practical differences in accounting practices would make an accelerated transition burdensome and costly for companies; and 2) Companies from some other large, economically important countries outside the EU, whose GAAPs are recognised as equivalent by the EU were already permitted to use IAS (or in the case of China, the accounting principles were considered by the European Commission to be very close to IAS). More details are provided in the 2012 IA and the PIR.

[6] BIS (2012), 'The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2012', IA Number BIS0355 http://www.legislation.gov.uk/uksi/2012/2405/pdfs/uksifia_20122405_en.pdf

[7] BIS (2015), 'The Accounting Standards (Prescribed Bodies) (United States of America and Japan) 2012', PIR No. BE001, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/446706/bis-15-443-accounting-standards-prescribed-bodies-usa-and-japan-regulations-2012-post-implementation-review.pdf

from within existing resource or by training up existing accounting resource to meet additional needs. The 2012 regulations were brought forward at the urging of a number of stakeholders to reduce conversion costs by allowing a longer period of time to undertake the conversion of parent company accounts.

5. The 2012 regulations were not intended as a permanent provision and were adopted to remove, in the short-term, a barrier to large and complex companies domiciling in the UK. Companies making use of the flexibility were expected to complete the transition within the life of the 2012 regulations. The expiry date of 31 December 2015 was set to allow companies time to prepare and file their 2014 accounts with the Registrar of Companies at Companies House[8] following either UK GAAP or IAS.

6. Our PIR of the 2012 regulations provided evidence that some companies who relocated to the UK made use of the flexibility – and that some companies considered the existence of the 2012 regulations as a supporting factor in their decision to domicile in the UK. This was supported by further contact with stakeholders after the publication of the PIR.

7. The PIR also found that the economic rationale underlying the introduction of the 2012 regulations remained valid. Therefore, as a result of the evidence gathered through the PIR, the 2015 regulations remake and enhance the de-regulatory provisions of the 2012 regulations to provide each eligible US or Japanese company that takes up the flexibilities offered by the regulations a transition period of up to four years.

B. Rationale for intervention

8. UK financial reporting requirements should ensure an accounting framework that enables the financial performance of different UK-based companies to be measured on a clear and comparable basis, for the benefit of account users (e.g. shareholders, lenders, creditors). This should not however place burdens on companies that are unnecessarily high or hinder the growth of the UK economy. The transition, for large companies that wish to domicile in the UK, to UK GAAP or IAS from another country's accounting principles can be complex and resource intensive.

9. The objective of The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulation 2015 (the "2015 regulations") is to help large and complex companies from the USA and Japan[9] that wish to domicile in the UK to incur lower costs, by providing a longer period for transition (up to four years) than otherwise would be available (within eighteen months if no action was taken and the 2012 regulations were allowed to expire). This will bring benefits by making it less burdensome for US and Japanese parent companies to domicile in the UK and will support the UK's economic growth by encouraging inward investment and potentially improving productivity, competition and innovation within the UK economy.

10. There is a trade-off between reducing burdens on business by allowing a longer period to transition to UK GAAP or IAS, and reducing comparability of financial information for UK account users. On balance, it is believed that the transition period of up to four years provided by the

[8] For more details see: https://www.gov.uk/government/organisations/companies-house/about

[9] The 2015 Regulations apply to US and Japanese companies for the same reasons as the 2012 Regulations did, as set out in footnote five.

2015 regulations should achieve economic benefits, by reducing burdens on the businesses choosing to domicile in the UK, without harming the overall integrity of the UK's accounting framework. This is because the 2015 regulations will provide companies who choose to domicile in the UK with a clear, measurable direction of travel towards adopting UK accounting principles or IAS. Therefore each company that chooses to domicile in the UK will, in the medium term, publish financial information which will be comparable to the information published by the majority of other UK based companies (e.g. companies that were created in the UK and companies that have previously successfully made the transition after choosing to domicile in the UK, but not the small number of US and Japanese companies whom are still transitioning to UK GAAP or IAS). A shorter transition period would increase the costs to business of transition, while over-extending the transition period, or removing the need for a transition period entirely, could undermine the integrity of the UK's accounting framework and the UK's commitment to IAS.

11. The 2015 regulations remake the Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2012 (the "2012 regulations"). The PIR of the 2012 regulations concluded that they had achieved their objectives to the extent that some companies were known to have:

- used the flexibility offered by the regulations; and
- took the regulations into account when considering where to locate their headquarters (HQ).

12. The 2012 regulations provided an up to three year transition period. To provide extra flexibility the 2015 regulations allow up to four years, providing extra flexibility for businesses.

C. Policy objective

13. The proposed 2015 regulations will remake and enhance the 2012 regulations to provide eligible companies with an up to four years transition period to bring their accounts into line with UK requirements. The evidence from respondents to the PIR of the 2012 regulations indicates that a longer period for the transition of accounts to UK requirements reduces business costs by avoiding the need for companies to take on extra resources, such as external accountancy staff, which would be required to cope with a shorter conversion timeframe. The transition period should give clarity to preparers of accounts about expectations of conversion to UK GAAP or IAS. A defined transition period also avoids the risks inherent in Option 2 (i.e. permanent use of third country accounting principles) that would introduce complexity into the UK's accounting framework and reduce the comparability and consistency of company accounts.

14. The remade regulations will also enable the UK to be seen to take a similarly flexible approach to financial reporting as offered by some other European countries such as Ireland and Switzerland. In summary the 2015 regulations should:

- Help encourage more companies to domicile in the UK.
- Demonstrate the UK's willingness to take a flexible approach to financial reporting without undermining the integrity of the UK's accounting framework.
- Put in place a de-regulatory measure whose benefits to business will accumulate over time.

D. Description of options considered (including do nothing)

15. Evidence drawn from the original Impact Assessment (IA) of the 2012 regulations and responses to the PIR indicated that there were three credible options for the future of the 2012 regulations. Alternatives to regulation are not considered feasible to achieve the Government's policy objectives.

- **Option 1** - Do nothing – let the 2012 regulations expire in December 2015 as intended.
- **Option 2** - Extend the 2012 regulations to cover financial reporting years indefinitely beyond January 2015.
- **Option 3 (Preferred option)** - Introduce a transition period (up to four years) for parent companies that locate to the UK from USA or Japan to convert to preparing accounts to IAS or UK GAAP (the 2015 regulations). The 2015 regulations will apply to financial years beginning on or after 1 January 2015 to ensure there is no break in the availability of the flexibility. The regulations are set to expire in 2022.

E. Monetised and non-monetised costs and benefits of each option (including administrative burden);

16. This section of the IA presents: 1) our analysis of how many companies will be affected by the proposed policy options; 2) our economic analysis of the monetised and non-monetised costs and benefits of the proposed policy options; and 3) our estimates of the equivalent annual net cost to business (EANCB) of the proposed policy options, and how they score for the purposes of the Government's Business Impact Target (BIT).

17. Our analysis of the costs and benefits of the policy options draws upon the analysis of the IA of the 2012 regulations and the evidence gathered in the subsequent PIR. It also draws on contact with stakeholders when the proposal to remake the regulations was announced in July 2015.

18. To gather qualitative and quantitative evidence for the recent PIR BIS officials:

- Contacted representative bodies and relevant government partner organisations to try to attempt to ascertain the number of companies that have taken up the option of filing accounts according to US or Japanese GAAP and understand the costs and benefits of the regulations.

- Placed a survey online from 4 December 2014 to 16 January 2015 that invited feedback on the costs and benefits of the regulations.[10]

- Contacted 26 stakeholders including accountancy firms, accountancy profession representative bodies and companies known to have an interest in the regulations to draw their attention to the survey and to ask for wider views on the impact of the regulations on business and the UK's accountancy framework.

[10] https://www.gov.uk/government/consultations/accounting-standards-regulations-us-and-japan-parent-companies-review-of-costs-and-benefits

- The intention to remake the 2012 regulations was discussed in a www.gov.uk news article, which was tweeted on 30th July 2015. The tweet received a positive response from stakeholders, and representatives from two management consultancies and a large offshore drilling company in responded stating their support for the remade regulations.

How many businesses are likely to be affected, each year, by remade regulations?

19. There is uncertainty surrounding the number of companies that were affected by the 2012 regulations and the potential number of companies that would be affected by the options (Options 2 and 3) to remake the regulations (or by the old regulations if they had not expired[11]). Our estimates of the number of companies affected by the proposed options are based upon the best available evidence from past evidence-gathering and analysis (described below). However there is still a high degree of uncertainty about take-up of the regulation's flexibilities by US and Japanese companies, so we conduct sensitivity analysis to show how the impact of the regulations varies when we vary key assumptions about the response of US and Japanese companies to the re-made regulations.

20. Overall, given the evidence from past analyses, and contact with stakeholders after the announcement of the policy, it seems reasonable to assume that the number of companies that will be affected by the re-made regulations will be in single figures each year. Although the policy is not expected to affect many companies those companies that are affected could be economically significant, because of their large size and interconnectedness to a number of other companies (i.e. from being parent companies within a group of companies).

21. The 2012 IA, drawing on evidence from similar regulations in Ireland, assumed that one company a year would be affected by the provisions of the 2012 regulations. The PIR found that it can only be said with certainty that three large companies that are listed on the USA's stock exchange benefited from the 2012 regulations (i.e. one per year of the 3 year period covered by the 2012 regulations). However it is possible that other companies were affected which were not identified through the PIR. After the launch of our survey to gather evidence for the PIR in late 2014 three management consultants have informed BIS of at least five separate clients for who the regulations were an important factor in their considerations regarding domicile.

22. Table 1 outlines our low, best and high estimates of the number of companies affected each year by the regulations. Drawing on evidence from the PIR and 2012 IA our best estimate assumes that remaking the regulations in some form affects one company per year. As a low estimate we assume that over the lifetime of the remade regulations the regulations affect the same number of companies that we know with certainty took advantage of the 2012 regulations – three companies. As a high estimate we assume that two companies a year are affected by the remade regulations. This is for the following reasons: 1) it is possible that the PIR evidence gathering did not identify all companies who had taken up the flexibilities offered by the regulations; and 2) three management consultants informed BIS at the end of 2014 of at least five separate clients for who the regulations were an important factor in their considerations regarding domicile.

[11] This is necessary to estimate the costs and benefits of Option 1 - Doing Nothing.

23. We estimate the impact of all the options over an eight year appraisal period. This is because the preferred option (Option 3) covers the eight years between 2015 and 2022. Other options are appraised over the same period for consistency.

Table 1: Estimated number of US and Japanese companies affected by the regulations

Estimate	**Number of companies affected per year**	**Total number of companies affected over an eight year appraisal period**
Low	0.375	3
Best	1	8
High	2	16

24. As in the IA for the 2012 regulations, it is not considered proportionate to attempt to provide a more exact estimate of the number of companies that could benefit from the regulations. Data can be obtained on the number of US and Japanese companies that have located a business operation in the UK. However, the data publicly available on the number of US and Japanese companies that have located a business operation does not provide information to show which of these companies incorporated their HQs in the UK. Also there is not sufficient information available to determine whether these companies meet the requirements set out in the regulations, i.e. that the company is not listed in another European Member State but had securities registered in the U.S. or listed on a Japanese stock exchange. Of those that did meet the requirements of the regulations, it is possible that not all would take-up the flexibility offered by the regulations for an extended transition period – which again is difficult to identify. Therefore our estimates are based around evidence from the recent PIR of the 2012 regulations and the IA of the 2012 regulations.

Economic costs and benefits of the proposed policy options

Option 1 - Do Nothing

25. The “Do nothing” option would allow the 2012 regulations to expire (thus maintaining the status quo is not feasible without further regulation). Not regulating is considered undesirable as it would lead to the removal of flexibilities to eligible companies which the 2012 IA, and evidence from the subsequent PIR of the 2012 regulations suggests were beneficial to business and did not harm the overall integrity of the UK’s accounting regime.

Benefits

26. This option is not expected to give rise to any monetised benefits. By obliging all companies based within the UK to follow UK accounting principles, regardless of whether they are listed in the UK or Japan, this option would ensure the consistency and comparability of UK accounts for their users (and thus give rise to non-monetised benefits).

Costs

27. The option would result in additional costs (e.g. internal or external accounting resource to ensure transition is completed to legal deadlines) for companies who choose to domicile in the UK, as they would have to produce accounts following UK GAAP or IAS within eighteen months of domiciling rather than within three years, as permitted under the 2012 regulations. The "Do nothing" option would therefore forgo the benefits arising from regulations that allow a longer transition period, by returning the accounting regulatory framework to the pre-2012 status quo.

28. In the table below we calculate the total forgone benefits of doing nothing, over an eight year appraisal period, by multiplying the per company forgone benefit from the 2012 IA[12] uprated to 2015 prices[13] by the total number of US and Japanese companies that we expect would have been affected by the 2012 prescribed bodies regulations if they had continued to be in place. We appraise the impact on business of doing nothing over an eight year appraisal period, for consistency with other options (i.e. Option 3, the preferred option, is a time-limited regulatory measure due to expire in eight years' time, so all options are appraised over an eight year period). The total (undiscounted) monetised costs of Option 1 range from £314,000 to £114.383 million with a best estimate of £29.014 million.

Table 2: Estimated monetised costs (undiscounted) of Option 1

Estimate	2012 IA estimated benefit per company (undiscounted)	Forgone benefit per company in 2015 prices (undiscounted)	Total forgone benefit of Option 1 over an eight year appraisal period (undiscounted)	Annual[14] forgone benefit of Option 1 (undiscounted)
Low	£100,000	£105,000	3 companies * £105,000 additional cost = £314,000	£39,000
Best	£3,470,000	£3,627,000	8 companies * £3,627,000 = £29,014,000	£3,627,000
High	£6,840,000	£7,149,000	16 companies * £7,149,000 = £114,383,000	£14,298,000

[12] The estimates of the benefits of the 2012 regulations were informed by a case study of the costs faced by a large parent company in a complex sector that was re-domiciling to the UK.

[13] HM Treasury GDP deflators show that between 2012 and 2015 the general inflation in the UK domestic economy was approximately 4.5%, therefore we uprate the 2012 IA estimates of the 'Out' by 4.5%. HM Treasury (2015), 'GDP deflators at market prices, and money GDP: July 2015 (Summer Budget 2015)', https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-july-2015-summer-budget-2015

[14] This, and other annual costs / benefits presented in the IA, assumes that the costs / benefits are spread evenly over the eight year appraisal period.

Summary of costs and benefits of Option 1

29. The table below shows the low, best and high estimates of the benefits, costs and the difference between benefits and costs for Option 1 over an eight year appraisal period. All of the figures presented in this table are undiscounted.

Table 3 - Summary of the costs and benefits of Option 1[15]

Estimate	Total costs (undiscounted)	Total benefits (undiscounted)	Total net cost (undiscounted)
Low	£314,000	£0	£0 - £314,000 - £0 = 314,000
Best	£29,014,000	£0	£0 - £29,014,000 - £0 = £29,014,000
High	£114,383,000	£0	£0 - £114,383,000 - £0 = £114,383,000

30. Our best estimate is that this will lead to a total (undiscounted) net cost to business of £29.014 million - with a low estimate of net cost as £314,000 and a high estimate of net cost of doing nothing of £114.383 million.

Option 2 - Extend the 2012 regulations to cover financial reporting years indefinitely beyond January 2015

31. Introducing Option 2 would offer de-regulatory savings by providing eligible US and Japanese companies with a permanent provision to file accounts in their local GAAP rather than converting to UK GAAP or IAS. It would mean that companies listed on stock exchanges in the USA or Japan would not have to produce parallel accounts for the UK and the relevant stock exchange.

Benefits

Monetised Benefits

Savings from not having to transition accounts to UK GAAP or IAS

32. Option 2 would offer de-regulatory savings by providing eligible companies with a provision to file accounts in their local GAAP. It would mean that rather than reducing the cost of conversion of accounts, conversion would no longer be required.

33. We estimate the impact of this option using a combination of evidence from the 2012 IA and the 2015 PIR.

34. As part of our PIR we surveyed companies who had chosen to domicile in the UK from the USA and Japan and had taken advantage of the flexibility offered by the 2012 regulations. This survey evidence confirmed that companies face conversion costs, and that not having to make the conversion in an accelerated timeframe of within eighteen months produced

[15] We only quantify and monetise costs and benefits to business from this measure, and therefore the figures in this table (and similar summary tables in the Impact Assessment) represent the monetised benefits and costs of the proposed option to business and to society.

savings to business. Respondent A[16] estimated that the incremental cost of compliance in the first year would be £567,900 (including costs related to training and hiring internal and paying fees to hire external accounting resource). In subsequent years compliance would range to a cost of £377,500 per year (again including costs related to training and hiring internal and paying fees to hire external accounting resource). Respondent B[17] estimated total savings of £325,000, from not having to increase the internal accounting staff resource to perform the conversion. Further evidence on the cost of conversion was provided by re-domiciled Respondent C[18] who stated that “our initial implementation project will cost approximately £2.025[19] million in addition to the initial implementation costs we forecast an increase of approximately £1.35 million per year”.

35. Overall the responses received to the PIR, although few and potentially not fully representative of companies that choose to domicile in the UK, suggest there are benefits in terms of avoided costs from not having to make the transition in an accelerated timeframe.

36. As previously discussed the costs and benefits of each option will be appraised over an eight year period. To work out the benefits of Option 2 firstly we take the evidence provided to us by companies in the 2012 IA and the PIR and work out the total savings (i.e. total avoided costs over eight years from not having converted their accounts). We then multiply this saving per company figure by the total number of companies expected to be affected by the regulations – outlined in Table 1.

Table 4: Estimated avoided total cost per company of not having to make the transition

Estimate	Benefit per company over an eight year appraisal period
Low	£0
Best	£3,627,000
High	£11,475,000

[16] The identities of the stakeholder who responded to the PIR survey and evidence gathering exercises were anonymised before publication of the PIR – and therefore have also been anonymised in this IA. Respondent A was a US company that had re-domiciled in the UK and taken advantage of the flexibility offered by the 2012 regulations.

[17] Respondent B was a listed US company that had taken up domicile in the UK, and taken advantage of the flexibilities offered by the 2012 regulations.

[18] Respondent C was also a US company who had re-domiciled to the UK, who had taken up the flexibilities offered by the 2012 regulations.

[19] Respondent C to the PIR survey provided cost estimates in American Dollars, which for comparability to other company estimates in the PIR we have converted to Pound Sterling. This was done using the exchange rate as of 1st April 2015 ($1=£0.6750), taken for the Financial Times Markets Data Archive: http://markets.ft.com/research/Markets/Currencies

37. The table above highlights the low, best and high estimate of the (undiscounted) total savings over an eight year period per company of not having to make the conversion to UK GAAP or IAS. Our best estimate (£3,627,000) is the best estimate of the uprated saving from the 2012 IA. As a low estimate we conservatively assume that there are no benefits to having an indefinite transition period. Our high estimate (£11,475,000) comes from data provided by Respondent C to our PIR survey, as this company provided the highest cost estimates out of the company evidence from the PIR and 2012 IA. This figure is worked out from Respondent C's initial costs of conversion (£2.025 million) and subsequent annual costs related to filing in UK GAAP or IAS (£1.35 million) over the remaining seven years of the appraisal period.

38. The table below takes the total per company avoided costs, and multiplies them by our low, best and high estimates of the total number of companies expected to be affected by the regulations over an eight year period, to work out the total (undiscounted) benefits of Option 2 over the eight year appraisal period. We also illustrate how this equates as a total (undiscounted) annual benefit.

Table 5: Estimated total, undiscounted monetised benefits of Option 2 over an eight year appraisal period

Estimate	Total savings to business (undiscounted) arising from Option 2	Annual monetised benefits (undiscounted) to business from Option 2
Low	3 companies * £0 total avoided costs per company = £0	£0
Best	8 companies * £3,627,000 total avoided costs per company = £29,014,000	£3,627,000
High	16 companies * £11,475,000 total avoided costs per company = £183,600,000	£22,950,000

39. Our best estimate of the total (undiscounted) benefits to business of Option 2 is £29.014 million – or £3.627 million per year. As a high estimate the total benefits are £183.6 million. As a low estimate the total benefits are £0.

Non-monetised benefits

40. A respondent to the PIR highlighted an additional benefit of the regulations. This was that eligible companies would 'not incur costs from [needing to pay for] our audit firm to audit two basis of accounting'. However we have been unable to quantify this benefit.

Costs

Monetised costs

41. We have not estimated any monetised costs related to this option. This is explained further in the following section of the IA, which discusses Option 2's non-monetised costs.

Non-monetised costs

Familiarisation costs

42. The only possible costs to business arising from the 2012 regulations, identified by the 2012 IA, were familiarisation costs, which were not monetised as they were expected to be negligible. Similarly administrative costs incurred by familiarising companies with Option 2 are expected to be minimal per adviser or eligible company – and we have not monetised these within the IA. It is assumed that advisors would be aware of the 2012 regulation and would take a limited amount of time to get up to speed with the changes proposed under Option 2. In terms of the companies looking to domicile, these will be large complex organisations with a good knowledge of international tax and accounting regimes (including the 2012 regulations) and hence familiarisation with Option 2 is expected to require little extra resource.

Other costs

43. This option would come with large non-monetised costs affecting a wide group of stakeholders that are likely to outweigh any benefits to business.

44. Our policy objective is to ease the cost of transition, not to remove the obligation to make the transition. UK-based companies may already choose between two frameworks – IAS and UK GAAP. Permitting the permanent use of third country accounting principles would introduce complexity into the UK's accounting framework and reduce the consistency and comparability of company accounts for those who use them. This would be undesirable for account users (e.g. investors, lenders and creditors who use published financial information to inform their decision-making). Indeed the majority of respondents to our review of the 2012 regulations felt that any renewal of the provisions should give companies filing under their local GAAPs a clear direction of travel toward UK accounting principles. Subsequent contact with stakeholders following the PIR indicated that affected companies understood why it was necessary for them to make the transition to UK accounting principles.

45. Allowing companies to permanently use a different set of accounting principles when filing their accounts also risks undermining the integrity of the UK's accounting framework. This option would also conflict with the Government's commitment to a single set of high-quality global standards, demonstrated by the adoption of IAS and subsequent Ministerial support at EU level for global standards.

46. We have not been able to monetise the costs of increased complexity, reduced comparability of accounts, a possible reduction in the integrity of the UK's accounting framework and the impact of undermining the Government's commitment at international

level to a single set of high-quality global standards. However we believe that these costs could be significant, and thus outweigh the potential savings to business that this Option would give rise to.

Summary of costs and benefits of Option 2

47. The table below shows the low, best and high estimates of the benefits, costs and the difference between benefits and costs for Option 2 over an eight year appraisal period. All of the figures presented in this table are undiscounted.

Table 6 - Summary of the costs and benefits of Option 2

Estimate	Total costs (undiscounted)	Total benefits (undiscounted)	Total net benefits (undiscounted)
Low	£0	£0	£0 - £0 = £0
Best	£0	£29,014,000	£29,014,000 - £0 = £29,014,000
High	£0	£183,600,000	£183,600,000 - £0 = £183,600,000

48. Our best estimate is that this will lead to a total (undiscounted) net benefit to business of £29.014 million over an eight year appraisal period - with a low estimate of the net benefits to business of £0 and a high estimate of £183.6 million.

Option 3 (Preferred option) - Introduce new regulations to provide a transition period of up to four year

49. Option 3 is the preferred option. It will provide an up to four years transition period for companies listed on the US or Japanese stock exchanges that choose to relocate their HQs to the UK to convert to UK accounting principles.

50. The original regulations provided a transition period of up to three years as, at the time these regulations were made this was considered by accountancy bodies to be a reasonable period of time for parent companies to make the transition from US or Japanese GAAP to UK GAAP or IAS without needing additional resource. By allowing up to four years we are providing greater flexibility for businesses without undermining the long-term consistency and comparability of UK accounts. The up to four year transition period would also offer US and Japanese companies, who have already domiciled in the UK an extra year to complete their conversion to UK GAAP or IAS. The fact that the PIR of the 2012 regulations found that a small number of companies had not completed the transition within the three year period, (as originally expected), provides some support to the idea that a slightly longer transition period may be beneficial for business. This was also supported by contact with stakeholders after the announcement of the proposed new measures and the publication of the PIR.[20]

51. There is a trade-off between reducing burdens on business by allowing a longer period to transition to UK GAAP or IAS, and reducing comparability of financial information for UK account

[20] The intention to remake the 2012 Regulations was discussed in a www.gov.uk news article that was tweeted on 30th July 2015. This received a positive response: representatives from two management consultancies and a large offshore drilling company stated their support for the remade Regulations.

users. On balance, we believe that an up to four year transition period should achieve economic benefits without harming the overall integrity of the UK's accounting framework. Since the 2015 regulations provide eligible companies with a clear, measurable route towards adopting UK accounting principles and thus in the medium term all UK domiciled companies published financial information will be comparable.

52. Additionally, stakeholder engagement has also highlighted that the 2012 regulations had a wider application than was originally envisaged. The transition period was intended for existing companies listed on US or Japanese stock exchanges that wished to re-domicile in the UK by incorporating a UK parent company that is also listed in the US or Japan. We now know that a company that had re-domiciled to the UK set up a new (i.e. not a re-domiciled) company in the UK to take up business that no longer suited its profile, and took up the flexibilities offered by the 2012 regulations for this separate company. The new and separate company was incorporated in the UK and listed on the New York Stock Exchange.

53. This was an unexpected interpretation of the 2012 regulations for they were aimed at companies that had incorporated in the UK following re-domicile. However, given the limited number of companies who are likely to make use of the flexibility offered by the 2015 regulations and the obligation to move to UK accounting by the end of the transition period, we consider that this does not pose any risk to the consistency and comparability of company accounts. The PIR did not reveal any evidence that the transition period had harmed the overall integrity of the UK's accounting framework. Therefore Option 3 does not restrict the application of the regulations to prevent this approach.

Benefits

Monetised Benefits

Savings from up to four year transition period for converting accounts to UK GAAP or IAS

54. The longer transition period provided by Option 3 should mean companies avoid additional costs (e.g. hiring or training extra internal accounting staff or paying fees to obtain external accounting resource) associated with converting accounts in an accelerated period (as under the Do Nothing option, where transition would be expected within eighteen months).

55. As previously highlighted company self-reported information from the 2012 IA provides evidence that companies face conversion costs, and thus a longer transition period can give rise to savings. We use this evidence to work out the impact of having an up to four year transition period (i.e. implementing Option 3) instead of an up to eighteen month transition period (if we did nothing).

56. Our best estimate (£3.627 million) is taken from the 2012 IA's best estimate of the savings per company from the current transition period (uprated for inflation using HM Treasury GDP deflators). This is a conservative estimate because it is possible that having an up to four year transition period, rather than an up to three year transition period, will result in additional savings to business. However, we currently lack evidence to robustly quantify this potential additional benefit. As a conservative low estimate we assume that the longer conversion period will save £0. As a high estimate we assume that the saving per company

of the new transition period will be the same as the uprated 2012 IA high estimate (£7.149 million).

Table 7: Estimated total avoided cost per company of an up to four year transition period compared to an up to eighteen month transition period

Estimate	Total benefit per company (undiscounted)
Low	£0
Best	£3,627,000
High	£7,149,000

57. The table below calculates low, best and high estimates of the total benefits of Option 3 given low, best and high estimates of the total number of companies affected by the regulations over the eight year appraisal period (Table 1) and the evidence on the total cost per company outlined in the table directly above. The annual benefit to business assumes that the total benefits are evenly spread in each year over the appraisal period.

Table 8: Estimated, total undiscounted monetised benefits of Option 3 over an eight year appraisal period

Estimate	Total savings to business (undiscounted) arising from Option 3	Annual monetised benefits (undiscounted) to business from Option 3
Low	3 companies * £0 total avoided costs per company = £0	£0
Best	8 companies * £3,627,000 total avoided costs per company = £29,014,000	£3,627,000
High	16 companies * £7,149,000 total avoided costs per company = £114,383,000	£14,298,000

Non-Monetised Benefits

Integrity of the UK accounting framework and UK support for IA

58. Compared to Option 2 it is also the de-regulatory option least likely to have unintended consequences for the UK's wider accounting framework and policy commitments. This is because in the medium term the option sets a clear direction of travel towards US and Japanese companies adopting UK GAAP or IAS, and thus producing financial information for account users that is comparable to other UK based companies.

Audit savings

59. A respondent to the PIR highlighted an additional benefit for the regulations. This was that Japanese and US companies would 'not incur costs from [needing to pay for] our audit firm to audit two basis of accounting'. However we have been unable to quantify this benefit.

Costs

Monetised costs

60. We have not estimated any monetised costs related to this option. This is explained further in the following section of the IA, which discusses Option 3's non-monetised costs.

Non-monetised costs

Familiarisation costs

61. Administrative costs incurred in familiarising companies with Option 3 are expected to be minimal per adviser or eligible company – and we have not monetised these within the IA. It is assumed that the former would be aware of the 2012 regulation and the 2015 are minor changes to those regulations. In terms of the companies looking to domicile, these will be large complex organisations with a good knowledge of international tax and accounting regimes (including the 2012 regulations) and hence familiarisation with the minor changes arising as a result of the re-making of the regulations is expected to require little extra resource.

Other costs

62. The 2012 IA, PIR and subsequent engagement with stakeholders have not identified any other costs to business that arose from 2012 regulations that we would expect to arise from their re-making (with a longer transition period), which would need to be reflected in this IA.

Summary of economic costs and benefits of Option 3

63. The table below shows the low, best and high estimates of the total benefits, costs and the difference between benefits and costs (all undiscounted) for Option 3, over an eight year appraisal period.

Table 9 - Summary of the costs and benefits of Option 3

Estimate	Total costs (undiscounted)	Total benefits (undiscounted)	Total net benefits (undiscounted)
Low	£0	£0	£0 - £0 = £0
Best	£0	£29,014,000	£29,014,000 - £0 = £29,014,000
High	£0	£114,383,000	£114,383,000 - £0 = £114,383,000

64. Our best estimate is that this option will lead to a total (undiscounted) net benefit to business of £29.014 million – with a low estimate of £0 and a high estimate of £114.383 million. Option 3 is our preferred option.

Equivalent annual net cost to business and scoring of the options for the purposes of the Government's business impact target

65. The preceding section of this IA has presented an economic analysis of the costs and benefits to business that result from the three proposed policy options. Below we outline the EANCB (in 2014 prices) of each option and discuss how they score for the purposes of the Government's BIT.

66. Option 1 imposes a net cost to business. Therefore it has a positive EANCB (£2.95 million) and counts as an 'In' under the Government's BIT. This is because it forgoes the benefits to business that would have arisen if the 2012 regulations would have remained in place for future companies to benefit from (£3.627 million a year (undiscounted)).

67. Our estimates of the EANCB of re-making the regulations in some form – Options 2 and 3 – follow the Better Regulation Framework Manual guidance[21] on the expiry of time-limited measures. Under this guidance the expiry of a time-limited measure that benefits business is considered an 'In' under the Government's BIT. Therefore to calculate the EANCB for both measures we: 1) take the estimate of the original net benefit (or 'Out') in the 2012 IA – uprating to 2015 prices for consistency (£3.627 million a year (undiscounted)); and 2) net this off as an cost (or 'In') from the estimate of the net benefit (or 'Out') that arises from re-making the regulations (£3.627 million a year (undiscounted)). Therefore, overall Options 2 and 3 have a £0 EANCB and are scored as 'zero net cost' towards the Government's BIT.

Table 10: EANCB and BIT scoring for each option

Option	EANCB (2014 prices)	BIT Scoring
Option 1	£2.95 million	In
Option 2	£0	Zero net cost
Option 3 (preferred option)	£0	Zero net cost

F. Rationale and evidence that justify the level of analysis used in the Impact Assessment (proportionality approach)

68. The 2015 regulations are deregulatory in nature and use of the flexibility offered is voluntary. Contact with business indicates that some eligible companies would take advantage of the flexibilities. However the impact and reach of the 2015 regulations should not be overstated. The transitional period, while useful in reducing the costs of UK domicile, would be one of many factors that companies consider when incorporating to the UK. It is likely that only a few companies will benefit from the provisions (although those that do could be economically important). The analysis for this IA has been informed by evidence from the IA of the 2012 regulations and the 2015 light-touch review of the 2012 regulations.

[21] BIS (2015), 'Better Regulation Framework Manual: Practical Guidance for UK Government Officials', https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/421078/bis-13-1038-Better-regulation-framework-manual.pdf

G. Risks and assumptions and wider impacts

Risks

69. Allowing the use of third country accounting principles will introduce some further complexity into the UK's accounting framework and reduce the consistency and comparability of company accounts. However the 2015 regulations give companies filing under their local GAAPs a clear direction of travel towards UK accounting principles. Furthermore there is no sign that the current provisions for filing under local GAAPs have harmed the integrity of the UK's financial reporting framework.

Assumptions

70. As part of our analysis we make the following assumptions:
    - The best estimate of the number of companies affected by the regulations is one per year (based upon evidence from the 2012 IA and 2015 PIR review).
    - Self-reported evidence on costs related to conversion of company accounts (i.e. from the 2012 IA and 2015 PIR) is an accurate reflection of the costs the companies face.
    - We use HMT Treasury GDP deflators to uprate the 2012 IA analysis to 2015 prices (an uprating factor of approximately 4.5%).
    - The monetised costs and benefits arising to companies are spread evenly over the eight year appraisal period.
    - Familiarisation costs to advisors and companies will be minimal – and therefore have not been monetised.

Statutory Equality Duties

71. The proposed policy option is not expected to give rise to any equality's impacts.

Economic Impacts

Competition Impact Test:

72. It is possible, by reducing the barriers to US and Japanese companies choosing to domicile in the UK and potentially increasing the number of companies that do domicile, the proposed regulations could increase competition in the UK economy. However, changes to accounting requirements, while supporting companies to incorporate in the UK are not likely to be one of the major factors in companies' decisions to regarding domicile, which is likely to be determined by other, regarding the wider business environment. Evidence received through the PIR was mixed. Respondents B and C to the PIR survey stated that the 2012 regulations were a significant consideration regarding whether companies chose to headquarter in the UK. However, this view differs to that of Respondent A to the PIR survey, which had benefited from the Regulations, but stated that they "were not a meaningful factor" in their decision to domicile in the UK. This view was echoed by other stakeholders when our intention to remake the provisions was announced. Therefore, given that the regulations are one factor within company decision-making, and because the policy is only expected to influence a small number of larger companies the economic and competition impact of the measure, while expected to be positive, are not expected to be large.

Small and Micro Business Assessment (SaMBA):

73. The Better Regulation Framework Manual states Departments 'must apply the SaMBA for all domestic measures that regulate business, except if they qualify for the Fast Track [Impact Assessment process]'. Therefore we have not conducted a SaMBA for the proposed regulations, because the measures outlined in this Impact Assessment were confirmed by the Regulatory Policy Committee to qualify for the Fast Track Impact Assessment process.

74. In principle parent companies of all sizes (including small and micro companies) can take advantage of the increased flexibility offered by the deregulatory proposals outlined in this IA. However in practice the evidence indicates that only larger companies are parents of a group of companies and only a small number of larger parent companies from the USA and Japan will take up the flexibility the regulations offer.

Environmental Impacts

75. The proposed policy option is not expected to give rise to any environmental impacts.

Social Impacts

Health and Well-Being:

76. The preferred option is not expected to give rise to any health and well-being impacts.

Human Rights:

77. The proposed policy option is not expected to give rise to any human rights impacts.

Justice System:

78. The favoured policy option is not expected to give rise to any justice system impacts.

Rural proofing:

79. The proposed policy option is not expected to give rise to differential impacts between urban and rural communities.

Sustainable Development:

80. The preferred option is not expected to have any impact upon sustainable development.

Family Test:

81. The DWP Family Test[22] sets out the following questions from officials to consider during policy-development.

- What kinds of impact might the policy have on family formation?
- What kind of impact will the policy have on families going through key transitions such as becoming parents, getting married, fostering or adopting, bereavement, redundancy, new caring responsibilities or the onset of a long-term health condition?
- What impacts will the policy have on all family members' ability to play a full role in family life, including with respect to parenting and other caring responsibilities?
- How does the policy impact families before, during and after couple separation?
- How does the policy impact those families most at risk of deterioration of relationship quality and breakdown?

82. The proposed policy option is not expected to have any impact on the family, as described above.

Summary and preferred option with description of implementation plan

Table 11: Net present value and EANCB of the options

Option	Total net present value of benefits minus costs to business and society	Equivalent net annual cost to business (2014 prices) for purposes of the BIT
Option 1	£ - 25.8 million	£2.95 million
Option 2	£25.8 million	£0
Option 3 (preferred option)	£25.8 million	£0

83. The table above shows the best estimate of the total net present value (to business and society) and the equivalent net annual cost to business of the options. Option 1 – allowing the 2012 regulations to expire – imposes a net cost on business (as the benefits to business of the 2012 regulations are forgone). In terms of monetised costs and benefits the analysis shows that Option 2 and Option 3 both give rise to a £25.8 million net present value / equivalent annual net cost to business. However Option 3 is the preferred option because Option 2 – allowing companies that have chosen to domicile in the UK to permanently file their accounts in US or Japanese GAAP – comes with large unmonetised costs. These are increased complexity of the UK accounting framework; reduced comparability for account

[22] DWP (2014), The Family Test: Guidance for Government Departments, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368894/family-test-guidance.pdf

users of accounts across companies based within the UK; a possible reduction in the integrity of the UK's accounting framework; and an undermining of the Government's commitment at international level to a single set of high-quality global standards. By contrast Option 3 enhances the flexibilities provided 2012 regulations, without giving rise to the same non-monetised costs as Option 2, as it provides a clear, timetabled direction of travel for each US or Japanese companies that has chosen to domicile in the UK to adopt UK GAAP or IAS in the medium term.

84. As previously discussed Option 1 is classified as an 'In' under the Government's BIT and Options 2 and 3 score as 'Zero net cost'.

85. The 2012 regulations applied to financial years ending on or before 31 December 2014. The 2015 regulations will apply to financial years beginning on or after 1 January 2015 to ensure there is no break in the availability of the flexibility. This will mean that all eligible companies will have a four year transition period in which to convert their accounts to UK accounting principles.

86. The remade regulations will expire in 2022. A review of the regulations is planned for 2020, to inform decision-making about the future of the regulations in 2022.