

<p>Title: The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2015 (amended 2022) PIR No: DBT023(PIR)-23-BF</p> <p>Original IA/RPC No: BISBE015</p> <p>Lead department or agency: Dept/Business and Trade</p> <p>Other departments or agencies: N/A</p> <p>Contact for enquiries: chris.tollady@beis.gov.uk</p>	Post Implementation Review
	Date: 15/06/2023
	Type of regulation: Domestic
	Type of review: Statutory
	Date measure came into force: 1st October 2015
	Recommendation: Keep and Amend
RPC Opinion:	

1. What were the policy objectives of the measure?

These Regulations give UK companies listed on US or Japanese stock exchanges extra time to convert from US or Japanese Generally Accepted Accounting Principles (GAAP) to use UK GAAP or International Accounting Standards (IAS) for filing accounts here. The Regulations provides a transition period (of up to four years) to offer these businesses flexibility to minimise additional costs and burdens of making this conversion, thus, to help encourage them to domicile in the UK. These regulations address one of many factors that a company might consider when deciding to domicile in the UK.

2. What evidence has informed the PIR?

A survey targeted UK domiciled companies currently using the regulatory easement. The survey elicited eight responses significantly more than the 2015 PIR achieved. The number of responses is large compared to the number of companies expected to take up the easement (one per year). Six provided sufficient information for analysis. Two of the participating businesses appeared to be large, with turnovers of +£36 million. Four companies said they were listed on NASDAQ, two on the New York Stock Exchange, and one on the Nagoya Stock Exchange; but one did not say. Five respondents said they had filed group accounts according to US GAAP. One used Japanese GAAP. We also conducted analysis using the FAME database to estimate the number of companies potentially in scope of this regulation, and then conducted desk research into a subset of these companies to better assess compliance.

3. To what extent have the policy objectives been achieved?

The survey evidence suggests the regulatory easement is helping some companies either to domicile in the UK, or for UK companies who want to take up a US or Japanese listing. Companies benefitting from it acknowledge it as one positive, but not decisive, factor supporting their domiciling here.

Sign-off for Post Implementation Review: Chief economist/Head of Analysis and Minister

I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed: ***K Lovell, SCS1 Head, Central Analysis Team***

Date: 22/06/2023

Further information sheet

Please provide additional evidence in subsequent sheets, as required.

4. What were the original assumptions?

Transition from US or Japanese GAAP to UK GAAP or IAS entails additional costs for businesses in conversion of their accounts, for example, in engaging accountants. The Regulations provided an extended transition period to reduce these costs, as opposed to having to convert for the first accounting period. The original, 2012 IA took a case study approach, engaging one company who had recently moved its headquarters to the UK, to inform the cost estimates. This was due to the difficulties in identifying companies which intended to make use of this easement. It was recognised that this reduced the accuracy of the estimates, but the original IA was deemed satisfactory on the basis that the regulations were intended as an easement and would not impose burdens. The 2015 IA relied on these estimates and sought input from three consultancy firms, which reported that the regulations were an important factor for at least five companies (clients) when considering domiciling in the UK.

5. Were there any unintended consequences?

These 2022 Regulations extended, by one further year, access to the four-year transition period for companies to convert their UK reporting of accounts to UK accounting principles, to enable Government to assess the future of the Regulations. Stakeholder survey responses to this review confirm that some eligible companies have used this regulatory easement simply to put off, not to complete their accounting conversions. At least one company looks at risk of not completing their conversion by the end of its four-year transition period.

6. Has the evidence identified any opportunities for reducing the burden on business?

The survey responses confirm the Regulations provide a regulatory easement which offers flexibility and enables cost savings by businesses in scope. Continuation of the easement could help some future businesses manage accounting conversions following UK domiciliation. The survey responses do not provide any evidence that the easement has undermined the integrity of the UK accounting framework. The easement should be extended allowing companies yet to domicile in the UK, and who are following US or Japanese accounting principles, to take advantage of the four-year transition period. However, as it is currently difficult to determine when a company started to use the easement, we propose that all companies using it should be required to add a note to their accounts to help them plan their transition and guard against non-compliance.

We have also found that the interaction of the four year easement with the time limited nature of the Regulations causes uncertainty. This arises because the four year limit runs out when the regulations expire. In this context, business confidence could be supported better if the Regulations are reformed to remove an expiry date, but ensure periodic reviews by the Government of whether the easement remains warranted and is not being abused.

7. How does the UK approach compare with the implementation of similar measures internationally, including how EU member states implemented EU requirements that are comparable or now form part of retained EU law, or how other countries have implemented international agreements?

The regulatory easement provided by the Regulations shows the UK taking a flexible approach to its financial reporting requirements to support economic growth. The easement is transitional, so it does not undermine the UK's continued support for use of International Financial Reporting Standards. EU law does not include a similar easement, although it is possible that the national law of member states could allow for it in the same way that the UK introduced this provision when it was a member of the EU. EU law requires EU companies to report using the national GAAP of their home Member State or IFRS, as adopted by the EU.

Further Information Sheet

Section 1: Summary of the post-implementation review

1. This post-implementation review (PIR) assesses the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2015¹, as amended (extended) by the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2022².

Context of the Regulations

2. Successive Governments have aimed to ensure proportionate and cost-effective regulation of business as a means to encourage inward investment, productivity, competition and innovation in the UK economy.
3. Companies incorporated in the UK must prepare their accounts using UK GAAP³ or IAS⁴. These requirements⁵ aim to ensure quality and consistency in how accounts are presented, so their users, including shareholders, can analyse and compare information. Companies may use other accounting frameworks or standards before relocating their headquarters to the UK, but they must then change their accounting system to UK GAAP or IAS. This accounting conversion means they incur costs.
4. Up until 2012, US or Japanese companies using other accounting frameworks or standards (e.g., US or Japanese GAAP) which wished to domicile in the UK needed to convert their accounting system to UK GAAP or IAS. A company which incorporated in the UK would have been required to file its first set of financial accounts according to UK GAAP or IAS within eighteen months of incorporation at Companies House. It has been identified that there could be significant costs associated with changing from a third-country GAAP to UK GAAP or IFRS given this short timescale to do so⁶. For some firms, this, for example, might entail heavy short-term reliance on external accountancy capability in order to make the change in time. It also temporarily benefits UK companies who might wish to list in US or Japan, as they are required to use US or Japanese accounting standards.
5. The Government introduced the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2012⁷ to reduce these conversion burdens on companies wishing to domicile in the UK. The Regulations gave parent companies listed on the securities and stock exchanges in the USA or Japan extra time – up to three years - in which to make the transition to prepare their group accounts in line with UK accounting principles (UK GAAP or IAS), as required under UK law after domiciling their companies in the UK.

¹ <https://www.legislation.gov.uk/ukSI/2015/1675/resources>

² <https://www.legislation.gov.uk/ukSI/2022/943/contents/made>

³ GAAP stands for Generally Accepted Accounting Principles.

⁴ IAS stands for the International Accounting Standards, which are set by the International Financial Reporting Council. These are also referred to as IFRS, including by business respondents to the survey for this post-implementation review. In this context, IAS and IFRS are used interchangeably.

⁵ Companies Act 2006, Section 395; in conjunction with Part 15 of the Companies Act 2006.

⁶ <https://www.legislation.gov.uk/ukSI/2012/2405/impacts/2012/387>

⁷ <https://www.legislation.gov.uk/ukSI/2012/2405/contents/made>

6. The policy objective here was to provide a means of managing and reducing transitional costs for such companies. The Regulations were not intended to eliminate costs, rather to reduce additional costs that would arise because of a challenging conversion period of eighteen months otherwise for filing UK GAAP or IFRS group accounts. The 2012 Impact Assessment concluded companies self-reported that the transition would take businesses longer than 18 months, and that a longer transition period would not only reduce the costs but give rise to savings.⁸
7. The intention was for the Regulations to offer the companies concerned opportunities to plan and pace their accounting conversion for UK reporting purposes, for example, to recruit or train staff for this adaptation rather than having to buy in more expensive external accountancy support in the short term to make an accelerated change.
8. The 2012 Regulations were intended as a temporary provision. They were set to expire in December 2015. However, a post-implementation review in 2015⁹ concluded that the underlying economic rationale for the legislation remained. It recommended the Regulations be extended until a new expiry date of 30 September 2020. It also proposed the Regulations be remade so that companies using US or Japanese GAAP would have up to four financial years from their date of UK incorporation to convert to UK accounting principles. A transition period of four years following UK incorporation was introduced in the re-made 2015 Regulations. However, in practice, the duration of the easement available was subject to the duration of the Regulations. This meant its span diminished for companies that started using it within four years of its expiry in 2020.
9. A further short post-implementation review in late 2020¹⁰ concluded that the Regulations should be kept and that, before their new expiry date in 2022, stakeholder views on their effectiveness ought to be gathered to inform a future decision on whether to extend the legislation further. However, the pandemic meant it was not possible to engage with businesses to inform a decision on the future of the Regulations. Given the difficult economic climate following the pandemic, it was felt that extending the Regulations would help support companies making use of them at a difficult time.
10. In line with this thinking, a further set of Regulations, made in 2022, extended the 2015 instrument until September 2023. The Regulations stipulated the Government should assess the situation again before July 2023. The 2022 Regulations were de minimis and there was no further Impact Assessment.
11. This post-implementation review, conducted during early 2023, now considers the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2015, as amended (extended) by the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2022.

Purpose of this Review

12. The purpose of this review is to examine the extent to which the Regulations have achieved their objective to support growth by encouraging US and Japanese parent companies to re-domicile in the UK, by offering the easement of a time-limited accounting conversion period, consistent with protecting the longer-term integrity of the UK's

⁸ <https://www.legislation.gov.uk/ukxi/2012/2405/impacts/2012/387>, pg. 15, para 55.

⁹ <https://www.legislation.gov.uk/ukxi/2012/2405/resources>

¹⁰ <https://www.legislation.gov.uk/ukxi/2015/1675/resources>

accounting and reporting framework. The outcome of this review will determine whether the Regulations should be retained, amended, or removed.

13. The previous, substantive post-implementation review of the Regulations in 2015 assessed their operation against the original 2012 Impact Assessment¹¹. The 2012 Impact Assessment had identified no net cost to business from implementation of the Regulations, according to the preferred option. It estimated a total annual benefit to business from the Regulations of £25.8 million, based on estimates of avoided costs, which otherwise would have been incurred in changing from a different country GAAP to UK GAAP or IAS within an 18-month period. Evidence gathered for the 2015 review suggested the 2012 assessment of prospective costs and benefits of the Regulations had been broadly correct.
14. The 2015 post-implementation review also gathered positive business feedback about the Regulations. It drew the inference from some feedback that the Regulations made the UK more attractive to companies considering domiciling here. However, it was difficult to draw strong conclusions as to the extent to which domiciling decisions were influenced by the Regulations, however it did highlight that the regulations were an ‘important factor’ in the company decision making to domicile.¹² This was because the feedback was limited, plus it was difficult to identify from available sources the overall population of businesses which might have benefited from the Regulations. The 2015 post-implementation review recommended a further extension of the Regulations to 2022, with a rolling, four-year conversion period easement; and that further evidence should be gathered on their effectiveness.
15. The further, shorter post-implementation review conducted in 2020 echoed these conclusions and recommended that stakeholder views on the Regulations be canvassed to inform a decision on their future. However, the pandemic and considerations of its impacts on businesses delayed this. Accordingly, the Regulations were extended in 2022 for one more year to enable this new assessment.

Approach of this review

16. This post-implementation review conducted a survey during early 2023 to elicit quantitative and qualitative evidence from businesses understood to be in scope of the Regulation.
17. This survey captured feedback from a small set of these businesses. It asked for their views on the value of the Regulations to them; their usage, experiences of costs and challenges of accounting conversion; how its existence impacted their decisions to headquarter in the UK, which might be taken to generate value to the UK economy and places, and their views on the future of the Regulations. A particular objective was to see how these businesses weighed the availability of the accounting easement alongside other factors when establishing their operations and investments in the UK.
18. Accordingly, the survey aimed to elicit qualitative feedback from them on these issues. It was not possible within this exercise to derive quantitative data on economic benefits accruing to the UK or parts of the UK from the Regulations.

¹¹ <https://www.legislation.gov.uk/ukxi/2012/2405/impacts/2012/387>

¹² <https://www.legislation.gov.uk/ukxi/2012/2405/impacts/2012/387>, pg. 7, para 21.

19. The target businesses for the survey were identified using FAME¹³. These were businesses believed to be in scope of the Regulations during 2022. However, as noted in the 2015 IA, these regulations are not expected to affect many companies (however, those companies affected could be economically significant).¹⁴ There is also a high degree of uncertainty of about the take-up of the regulation's flexibilities for US and Japanese companies. This is because there is no publicly available database which shows which companies have re-domiciled to the UK and are benefiting from these regulations. This creates challenges in identifying whether businesses have changed to UK accounting standards within the transition period.
20. FAME data suggests there is an estimated **ninety companies** based in the UK, which are listed on US stock exchanges¹⁵. However, available data sources do not show the population of UK-based companies listed on the Japanese exchanges referenced in the Regulations. We can speculate that it is a subset of companies, who meet the eligibility requirements of the Regulations, that is, being listed in the US or on a Japanese stock exchange, which have used the easement to manage their accounting conversion costs. As in with the 2012 and 2015 IA, it is not considered proportionate to attempt to give a more exact estimate of the number of companies in scope.
21. The survey for this review was sent to **twenty-eight companies** identified from FAME data as UK companies listed on US or Japanese exchanges, which potentially might be using the Regulations easement, and with whom contact could be made by email. This elicited **eight business responses**, of which **six** provided sufficient information for analysis. The 2015 Impact Assessment draws on the 2012 Impact Assessment for companies in scope, with a best estimate of one company affected per year. When comparing this with the survey responses, we can claim with some certainty that at least six companies (based on responses to the survey) will be affected. It's also worth noting that the original 2012 impact assessment estimates was based on one company benefiting from the easement.
22. Two of the participating businesses appeared to be large, with turnovers of +£36 million. Four companies said they were listed on NASDAQ, two on the New York Stock Exchange, one on the Nagoya Stock Exchange; whilst one did not say. Five respondents said they filed group accounts in the UK according to US GAAP, whilst one used Japanese GAAP. Five referred to transitioning to international standards originated by the International Financial Reporting Standards (IFRS) Board, but one wanted to continue to file under US GAAP and called for a permanent UK exemption to allow this.
23. Desk research was also conducted into a few companies identified from the FAME analysis as potentially in scope of the regulations to assess compliance.
24. There were some challenges in developing the evidence base for this PIR:
- There was limited engagement from stakeholders despite our efforts to solicit views. We used the contact details identified in FAME, however, there were significant gaps in the list of contact details.
 - Despite attempts to understand how the UK compares internationally, we were unable to conduct an in-depth international comparison due to limited data sources.

¹³ https://www.bvdinfo.com/en-gb/our-products/data/national/fame?qclid=CjwKCAjw9J2iBhBPEiwAErwpef1IGURQDN9_1BzUoYefpu0cqZp7ADZNo_6l8nFhgWTezd4C7UXjGB0C4wEQAvD_BwE, May 2022. This estimate is based on companies whose main exchange is in the US. We have not been able to confirm whether the US exchanges selected in this search are the 'prescribed' exchanges as listed in the legislation.

¹⁴ Their nature of being parent companies and listed on stock exchanges in the US and Japan.

- Lastly, as mentioned above, due to no publicly available data sources, we were unable to identify the number of companies who have already/currently making use of this easement.

To what extent has the policy achieved its objectives?

Impact of the regulatory easement on business costs

25. The survey for this 2023 post-implementation review gathered some evidence to augment the 2015 review's finding on the costs to businesses of conversion to UK accounting principles. The evidence collected for the 2015 Review broadly confirmed the 2012 Impact Assessment of prospective costs and benefits of the Regulations. This review has not updated total annual business costs and benefits from the Regulations but has instead focused on the nature and scale of the savings which individual businesses attributed to the Regulations easement.
26. Respondents commented both on the costs, - they were presented with a log scale in the survey - and the *nature* of regulatory burdens *avoided*, as a result of using the easement of the Regulations.
27. Three of six business respondents to the survey estimated the Regulations' accounting conversion easement reduced the scale of their conversion costs by sums in the £100,000s. One company thought the easement saved it something in the £10,000s, one in the £1,000,000s, and one envisaged savings in the £10,000,000s. This wide-ranging scale is somewhat similar to the 2012 Impact Assessment's figures which estimated an accelerated conversion to UK GAAP or IAS would impose costs between £100,000 to £6.84 million per company. However, it is noteworthy that these 2012 estimates were based on a single case study. Nonetheless, the 2015 IA relies on the £100,000 per company figure, uprating for 2015 prices, resulting in a per company cost of £105,000.
28. One company said the Regulations made possible the "*most prudent and efficient*" way for it to submit whilst listed in the US.
29. Another company commented that transition from US GAAP to IAS would be,
- "...an extremely costly and time-consuming exercise, which would divert significant resources... We would estimate costs upward of £250,000 to undertake the transition."* **(Company B)**
30. They expected:
- "...additional costs and resource requirements of preparation of [a] UK Annual Report if it were to IFRS, including the subsequent audit of it. All separate to the 10K under US GAAP, but running to the same timescale."* **(Company C)**
31. Respondents to the 2023 survey also flagged practical difficulties of the accounting conversion required from them on UK domiciliation. Amongst six substantive respondents, three saw the conversion required from them as 'extremely difficult', whilst the other three felt it was "somewhat difficult".
- "Maintaining and managing dual sets of accounting records, standards, incremental footnote disclosures and controls. Applying these different accounting standards*

for similar transaction on a global basis. Ongoing monitoring of continued changes in both U.S. GAAP and IFRS reporting standards which are promulgated by different accounting standard boards with different strategic priorities. Potential for confusion among users of our financial statements who must reconcile differences between IFRS and US GAAP reported financial results (i.e., balance sheet, cash flow, income statement). This will result in significant incremental costs for the company to maintain software, employee personnel and incur additional fees from our external auditors for the dual sets of records.” (Company E)

32. Two suggested they envisaged at least two years’ work to make the change, but the easement gave companies “*more time to transition*” therefore reducing cost burdens. The 2015 Impact Assessment also supported this; accountancy bodies agreed the extension period was a reasonable period of time for parent companies to transition without incurring additional costs (through additional resource)¹⁶

Impact of the regulatory easement on businesses deciding to locate in the UK.

33. Several businesses responding to the survey confirmed the Regulations were a supportive factor in their decisions to incorporate a company in the UK which would list in the US.

“We are headquartered and domiciled in the UK and have already made the decision to incorporate a UK plc entity for listing on Nasdaq in 2021 - but it would have been relevant if the instrument did not exist at the time of that decision in 2020.” (Company B)

34. Respondents did say in several instances that the absence of the Regulations would have negatively influenced their decisions about investing in the UK. These survey responses from affected businesses suggest the Regulations were a positive factor supporting their UK domiciliation. However, the responses did not isolate the accounting easement of the Regulations as *the only* or decisive factor in their decision-making.

“The decision to do so was complex and multifaceted. No single factor would have influenced our decision on where to redomicile. The extended time period for compliance with IFRS was certainly a factor in our decision as was the commercial mindedness of BEIS in requiring companies like ours to apply a new accounting standard on a strict time schedule.” (Company E)

35. If the Regulations did not exist, respondents said,

“It could encourage the redomicile of the Company to the US, particularly if the cost of being headquartered in the UK outweighs the benefits”. (Company C)

“We likely wouldn't have established a finance team in the UK. We've been building that out. We work on R&D, I think this with a combination of reduced tax credit announced recently would not make the UK an attractive place to start up.” (Company D)

36. These are messages of support for the Regulations from the handful of businesses which responded to the survey for this review. However, it remains difficult to draw strong

¹⁶ <https://www.legislation.gov.uk/ukxi/2015/1675/resources>, Page 21, paragraph 50.

conclusions about a wider positive impact from the Regulations on economic growth within the UK. The survey evidence from this review suggests some companies certainly attribute significant cost savings from the accounting easement provided by the Regulations, therefore it might be inferred that the Regulations do make the UK more attractive to some companies thinking of domiciling in the UK.

Have there been any unintended consequences from the Regulations?

37. Most of the small set of affected businesses responding to the survey do not appear to have made any preparation to convert to UK accounting principles, and have not used the transition period to ease and manage the costs and burdens of this. This does not sit with the original intention of the Regulations, which was to provide a temporary regulatory concession, not a permanent exemption. Therefore, in this respect, the Regulations are not working as originally intended.
38. From the six substantive company responses to the survey, four said they had not commenced work to convert their UK filings to either UK GAAP or IAS (IFRS). The other two commented that two years' work would be required to convert. When asked how the difficulties of conversion could be alleviated, five respondents commented on the need for more time or desirability of postponing if the regulatory easement was extended further. One respondent said it wanted to continue to file under US GAAP. Some set out reasons for not converting. These centred around needing to focus on and not divert resources from the establishment or objectives of the company.
39. Respondents in the 2023 survey are calling for more time to approach their accounting conversions. Although, companies have had a significant number of years to make this conversion already (in excess of the two years suggested that is needed to make the transition more comfortably), the 2015 Impact Assessment suggested from previous evidence that a longer transition period may be necessary. The recent economic context of the pandemic and the subsequent downturn might have been added contextual pressures for these businesses and for their head offices, operations and investments in the UK.
40. It could be that other companies, which did not participate in the survey, have used the Regulations as originally intended. Perhaps those companies keenest to call for a further extension of the easement were much more likely to respond to the survey, as opposed to others who already converted to UK accounting principles for their UK accounts filings (as they would have already made use of the easement). Therefore, the survey findings could have been skewed in this regard. Given the limitations in identifying all the companies who might be in scope of the regulation, it has been challenging to assess the representativeness of the survey responses.
41. The findings of the survey suggest the Regulations have nominally maintained the integrity of the UK accounting and reporting systems by providing a time limited period for conversion to UK accounting principles for filings here, not an indefinite exemption arrangement. However, it is clear that some companies, which have used this accounting easement in the course of their UK domiciliation, have made no preparations to convert to UK accounting principles for filings here.
42. One respondent saw preparation of accounts using either UK GAAP or IAS (IFRS) as,

“Difficult to justify as we are listed on NASDAQ and have no use for IFRS accounts.”
(Company A)

“Given our historical US GAAP reporting it is unlikely that the incremental costs to issue IFRS financial statements will provide benefit to shareholders, debt holders and other users of our financial statements, the overwhelming majority of whom are accustomed to US GAAP.” **(Company E)**

43. The 2015 post-implementation review reported some views from accounting and auditor stakeholders both that the Regulations should remain a temporary easement to avoid compromising UK support for IAS, but equally that a permanent extension could be warranted if there was compelling evidence that it would bring economic benefits by easing corporate relocations. This 2023 post-implementation review has focused on seeking feedback from the affected businesses, and it has captured anecdotal evidence on the business value they attribute to the UK taking a flexible approach to financial reporting; and how this has supported their establishment and investment in the UK. This falls short of being a substantive body of evidence of economic benefits, but, conversely, the review has not found evidence that the regulatory easement has undermined the working of the UK corporate accounting and reporting framework. The limited number of companies using the regulatory easement suggests low impact and no harm.

44. A further corollary of the Regulations is that, in providing an easement to support UK domiciling of companies which meet the eligibility requirements of being listed on US or Japanese stock exchanges, they also enable these businesses to establish or maintain these listings overseas. The Regulations do not incentivise these companies to list in the UK; but equally, by providing an easement, not a permanent exemption from UK GAAP or IAS-based reporting requirements, they do not discourage UK listing. This review has considered the Regulations in the light of their policy original objectives, but it looks appropriate also to gauge their interactions with UK listing, if they are extended.

Is Government intervention still required? Or has the market changed as a result of the policy?

45. This post-implementation review has focused on feedback from UK-domiciling companies about how they have used the regulatory easement to enable accounting conversion from UK or Japanese GAAP. These businesses unsurprisingly welcome the Regulations as a positive component of the UK business environment. They say the Regulations have helped them to establish and invest here in the UK.

46. Respondents commented on the desirability of extending the regulatory easement of the Regulations.

“Continue with the current exemption and file under US GAAP”.
(Company B)

“Should the instrument be extended, we would be able to defer the IFRS conversion of our US GAAP financials until the financial year commencing 2025. This would give us sufficient time to plan for and make the necessary changes to facilitate a smooth and less costly transition to IFRS and devote more resources in the meantime to our R&D efforts.” **(Company A)**

“Provides time for innovative start-up companies to focus on building the Company in the UK. Also, time to establish a team and get controls/processes in place.”
(Company C)

“It would allow us more time to make the assessment and hopefully in an environment which supports fundraising to support that.” (Company D)

“Given the substantial challenges of implementing IFRS...” it “...requires additional time to develop the internal resources and expertise to be able to deploy two separate sets of financial standards.” (Company E)

47. The business contributions to this review suggest we should extend the accounting easement to help attract inward investment to the UK.

What is the scope for reform?

48. The policy objective of the Regulations has always been to provide the flexibility of a transition period to ease certain businesses' migration to UK accounting principles, which ultimately is to provide for consistency across corporate reporting in the UK. *However, the survey responses suggest some companies are using the Regulations not as this temporary regulatory concession, but simply as a continuing exemption from any requirement to report in the UK according to UK accounting principles.* Most respondents said they wanted the Regulations extended in duration. However, an extension of the regulations still only permits companies to use US or Japanese accounting principles for four financial years after the date of incorporation. Given that it is 2023, if a company was incorporated before 2019 and is still using US or Japanese accounting principles, then it is in breach of the regulations. A FAME search suggests that there are a significant number of companies with a US listing which were incorporated before 2019. Unfortunately, we have no way of knowing from FAME whether these companies have made the accounts conversion or not.
49. A sampling of some of the accounts filed using the Regulations confirms that some companies may not understand that they can only benefit from the easement for a limited period. At least one company's recent filed accounts referred to its use of the easement, but seemingly misinterpreted this as allowing the concession for the duration of the Regulations. We also found a couple of examples of companies' accounts stating explicitly that they had been prepared according to US GAAP and claimed use of the easement to cover this for UK filing.
50. The Regulations were extended in 2015 and 2022. A further extension evidently would be welcomed by UK-domiciling companies using it. However, previous extensions of the Regulations might have made it more difficult for businesses to understand that the transition period was different to a straight 'exemption' and for users of financial statements to know when conversion will take place. An additional factor to confuse and unsettle user businesses may also be that the duration of the easement, nominally available for up to four years from UK incorporation, in practice diminishes once the legislation approaches its expiry date. The easement is curtailed if the legislation were to expire. There is therefore scope to simplify and improve the legislation to clarify businesses' understanding of it; and to counter inadvertent misinterpretation or, at worst, abuse.
51. One option is to amend the Regulations to require companies to add a note to their UK-filed accounts, if they have not already done so, to state explicitly that they are using this easement and when they first started using it (following UK incorporation). This would allow users of the statement to know how much longer the company has to convert to using UK GAAP/IFRS. This kind of approach would be a light touch means to provide more clarity to companies using the easement that it is a transitional measure. There is

no palpable additional reporting burden for the businesses concerned. It would assist and enable easy tracking to monitor where companies have used the easement for longer than entitled and not made their accounting conversions for UK filings. *Auditors, consistent with their general responsibilities to qualify their opinion on accounts where they identify irregularities, including illegality, should do this in instances where accounts do not comply with the duration of the easement.*

52. A complementary reform would be to remove an expiry date from the Regulations to provide clarity and more certainty for businesses using the easement. This reform would need to be accompanied by a requirement on the Government to undertake post-implementation reviews of the legislation at least each five years to decide whether to keep, reform or remove it in line with the requirement set out in sections 28-32 of the Small Business Enterprise and Employment Act 2015. Reviews in this vein should consider the economic impact of the Regulations and their value to the businesses concerned, but also focus on whether and how these companies are using the transitional easement to complete accounting conversions. Further detail is set out below in the future monitoring and evaluation section.

Recommendation

53. Our recommendation is to retain the Regulations to enable their continuing use to support companies domiciling to the UK. The Regulations should be extended beyond their expiry on 30 September 2023 to provide longer term certainty and reassurance for companies considering domiciling in the UK; in particular, to ensure the easement is open to eligible businesses for its span of up to four financial years from their date of UK incorporation, to enable them to plan and implement their accounting conversions at lowest cost.

54. In this context, we recommend simplifying the legislation to support business confidence by removing an expiry date from the legislation, with a requirement for the Government to conduct a post-implementation review at five yearly intervals after it is remade to decide whether the legislation continues to meet its objectives. Each review will propose whether the regulations should be kept, reformed or removed. Alongside this, the Regulations should be revised to emphasise to user companies that the easement is a temporary derogation, not a permanent exemption, by requiring companies to state on their accounts when they first started using the easement.

Section 2: Future of the Regulations

55. This review has considered three options for the future of the Regulations.

- **Option 1:** Do nothing. Allow the Regulations to expire on 30 September 2023.
- **Option 2:** Amend the Regulations before their expiry on 30 September 2023 to introduce a permanent exemption for parent companies to use US or Japanese GAAP to file their group accounts in the UK.

- **Option 3 (recommended option):** Extend the Regulations beyond their expiry on 30 September 2023, retaining the transition period easement of up to four financial years following UK incorporation; and also reform and simplify the legislation (i) by dropping an expiry date and instead requiring the Government to conduct a post implementation review at five yearly intervals for as long as the regulations remains in existence; and (ii) to require companies using the easement to file UK accounts using US or Japanese GAAP to confirm this as a note in their accounts and indicate when they started using the easement and therefore how long this transition period still has to run following their incorporations in the UK.

Considerations

56. Option 1 would simply strip away a regulatory easement which has provided businesses transitional shelter from regulatory costs and burdens. It would offer no flexibility or savings to businesses. This option was rejected because it would increase costs and burdens for some companies domiciling in the UK.
57. Option 2 would create a permanent exemption for UK-domiciling companies using US or Japanese GAAP to continue to do so in the filings in the UK. They would not be required to switch to UK GAAP or IAS.
58. This approach would deliver cost savings to these companies by lifting any requirement from them for accounting conversion. Several companies preferred this judging by their survey responses' scepticism about the business value of preparing accounts against two sets of accounting principles.
59. This option might contribute to making the UK an attractive location for companies using US or Japanese GAAP now and into the future. However, a perpetual exemption for certain UK companies domiciling from having to file accounts according to UK GAAP or IAS is inconsistent with the original intention of the Regulations in offering the transitional easement to maintain the ultimate integrity of the UK's accounting and reporting framework. Companies not converting their accounting standards would reduce the comparability of financial accounts for users of the accounts in the UK market, reducing their ability to make trading or lending decisions based on the best information. Further it would be difficult to justify why other UK companies, not listed in the US or Japan, should not have the same flexibility.
60. This option might also be susceptible to any possible future shifts in either US or Japanese GAAP, which would impact filings here in the UK. An indefinite exemption would also not be consistent with the UK's strategic support for International Accounting Standards, which fundamentally aim to reduce costs through greater transparency and consistency across borders. Currently, IAS undergo a UK endorsement process whereby the standards are considered individually before a decision is made to incorporate them into UK-adopted IAS. Meanwhile, UK GAAP is written by a UK regulator and has to meet certain tests to ensure the needs of UK market users are met. By accepting the use of overseas GAAPs on a long-term basis, the UK would be accepting the use of standards which have not been through a comparable process and over which the UK has no influence or control. It would also pose a challenge to UK regulators to take enforcement action in a case of incorrect accounts prepared, for instance, using US GAAP.

61. There is also a risk that companies using many other foreign GAAPs come to believe they have grounds to lobby for similar concessions in the UK. Whilst there might be scope to investigate whether widening of the Regulations' accounting conversion easement to companies from other major overseas economies and their national GAAPs, say, with an aim to encourage inward investment, this would simply magnify all the concerns about compromising the UK corporate reporting framework.
62. This option is rejected because it fundamentally compromises the key market objective to promote consistency across UK corporate reporting to benefit preparers, shareholders, creditors and other stakeholders.
63. **Option 3 (recommended option):** This option enables the Regulations to continue to help support businesses using US or Japanese GAAP moving their head offices to the UK, by granting the longer, up to four financial years timeframe to convert to UK accounting practices for UK filings to help them manage and reduce the associated costs which would arise with a faster transition within eighteen months, as would otherwise be required if the Regulations were not in place. The option includes two reforms of the legislation: first, to simplify it by substituting the expiry date of the regulations for a requirement to produce a post-implementation review at five yearly intervals to assess whether the policy objectives and compliance with the requirements are being achieved; and, second, introducing a requirement for companies to state how long they have been using the easement in a note to their accounts to encourage them to plan their accounting conversions in line with the objectives of the Regulation.
64. A further extension of the easement with its transition period model supports the overarching objective to ensuring consistency in the preparation of UK-incorporated companies' accounts. Evidence from the 2012 Impact Assessment and the 2015 post-implementation review suggested these regulations were beneficial to companies and did not harm the overall integrity of the corporate reporting regime. Therefore, companies taking advantage of the transition period are still required to work towards ensuring that their annual accounts filed here meet the UK's touchstone legal requirement that they give a "true and fair view" of a company's financial performance and position. The proposed simplification of the Regulations by omitting an expiry date but including periodic reviews by the Government, provides more confidence to the companies using the easement. This would end confusion about the interaction of the transition period of up to four years with the time-limited duration of the Regulations. The length of easement is necessarily diminished as the Regulations approach their expiry, but this has not been made explicit. The additional requirement for user companies to include a note in their filed accounts about their use of the easement ratifies their intent to transition to UK accounting principles, not put that off. It would also provide clarity to market users of the accounts.
65. The full transition period of up to four financial years provides a generous time provision for companies to plan and implement their accounting conversions at lowest cost. Especially as some survey respondents suggested their internal work towards the conversion could take at least two years (consistent with previous self-reported data).

Section 3: Conclusions

The review confirms that the Regulations have achieved their objectives to the extent that several companies are using the easement. The evidence gathered in this review, although limited, suggests that the existence of the Regulations is seen by some of these companies as a positive contributing factor in their decisions to domicile in the UK. It should be recognised that these regulations are not claiming to be the sole determinant of whether a company chooses to domicile in the UK. The decision to relocate a company is multi-faceted with many commercial sensitivities. In the context of the UK leaving the EU, this easement contributes to the attractiveness of the UK as a place to do business. The regulations also allow UK companies who wish to list in the US or Japan to use US or Japanese accounting standards for up to 4 years after incorporation.

66. There is no evidence to suggest that the existence of an extended transition period for eligible companies has undermined confidence in the UK's accounting and reporting framework. However, at least one company looks at risk of not completing their conversion by the end of the four-year conversion period. It is also possible that some companies have used the easement to postpone conversion of accounting practices, rather than reduce the costs associated with conversion, as originally intended by the Regulations. The Regulations were intended to strike a balance between the additional costs to companies of making rapid changes to their accounting arrangements with the benefits of comparability that come from recently domiciled UK companies adopting the same standards as existing UK companies, rather than a means of permanently avoiding costs of transition.
67. The recommended Option 3 provides that parent companies whose securities are registered in the USA or admitted to trading on Japanese stock and security exchanges would have a maximum four financial year transitional period from the date of incorporation in the UK to prepare their group accounts in line with UK GAAP or IAS.
68. Option 3 offers cost savings to these businesses, in contrast to Option 1 ("do nothing"/allow Regulations to expire), without compromising the UK's overarching support for international accounting standards or posing a risk to the integrity of the UK's accounting framework unlike Option 2 (indefinite exemption) which would allow companies to use different accounting standards forever. The proposed additional requirement in Option 3 on companies using the easement to note they are doing so in their accounts encourages accounting transitions according to the objectives of the Regulations and helps guard against permanent avoidance, which would amount to an abuse of the regulatory concession.
69. To the extent that the transition period encourages more companies to re-domicile in the UK by offering them a reasonable period for their accounting conversions, Option 3 may generate economic benefits to the UK. Option 3 also provides the opportunity for the Government, if it wished, to explore if any more use could be made of the Regulations to encourage inward investment and economic growth; consistent with avoiding harms to the integrity of the UK accounting and reporting framework.

Plans for future monitoring and evaluation.

70. The regulations should include a provision for five yearly post-implementation reviews of the re-made Regulations, for as long as they continue to exist, with the first of these due in 2028.
71. In summary, the first review, as stated in the SBEE Act 2015 should a) set out the objectives intended to be achieved by the regulatory provision, b) assess the extent to which those objectives are achieved, c) assess whether those objectives remain appropriate, and, d) if those objectives remain appropriate, assess the extent to which they could be achieved in another way which involves less onerous regulatory provision. More specifically, the first review should include:
 - a. Analysis of the economic impact of the Regulations, with information gained from a more extensive survey of companies using the easement to capture evidence on the impacts on the UK economy and places. The analysis should also seek information to gauge interactions with the UK stock market and listings. It would be important for the next review to gather evidence on the economic impact of the Regulations and its overall scale to justify any further extension.
 - b. Second, where the survey for this current review gathered evidence from companies of accounting conversion challenges and the costs *avoided* via the easement, the next review should survey businesses, which have used or are using the easement, to capture evidence on how they actually approached/are approaching their accounting conversions for the purposes of filing UK accountings. It ought to be feasible to seek feedback from those companies identified as using the easement in this current review, to confirm they subsequently completed their accounting conversions within their individual transition periods. We should also reach out to other companies which may have used or started to use the easement between now and 2028.
 - c. Third, work in advance of the next review should specifically include tracking to check that companies identified as using the easement complete their accounting conversions within their transition periods (up to four years after their UK incorporations), to verify that the easement is not being abused. The reform, discussed above, to require companies to add a note to their accounts explicitly to declare their use of the easement and its duration would make this tracking exercise easier. This will involve identifying the companies (through consultancies and/or available databases) anticipated to be in scope of the regulations and then manually assessing compliance.
 - d. Fourth, an assessment through desk research and engagement with consultancies to understand better how the UK approach compares internationally with similar measures.

Annex:

Equality Analysis for the Post-Implementation Review of the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations

Scope

This document records analysis undertaken by the Department for Business and Trade (DBT) to fulfil the requirements of the Public Sector Equality Duty (“the equality duty”) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to:

- i. eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- ii. advance equality of opportunity between people who share a protected characteristic and those who do not.
- iii. foster good relations between people who share a protected characteristic and those who do not.

The protected characteristics which should be considered are:

- age
- disability
- gender reassignment
- marriage or civil partnership
- pregnancy and maternity
- race
- religion or belief
- sex
- sexual orientation.

Outline

This assessment considers the findings and recommendations from a Post-Implementation Review (PIR) of the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2015, as amended (extended) by the Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2022.

These Regulations gives parent companies listed on US or Japanese stock exchanges, which domicile in the UK, extra time to convert from US or Japanese Generally Accepted Accounting Principles (GAAP) to use UK GAAP or International Accounting Standards (IAS) for filing group accounts here. Companies’ decisions to domicile in the UK may be driven by a range of factors. The Regulations provide the regulatory easement of a transition period to in-scope businesses, to provide them flexibility to minimise additional costs and burdens of making this conversion, and thus help make it easier to locate their head offices in the UK.

The findings from a business survey conducted for this PIR were that this regulatory easement of UK corporate reporting requirements is acknowledged by some UK-domiciling companies, which

are benefitting from it, as one amongst a number of positive factors supporting their headquartering here. There is no evidence to suggest that the existence of an extended transition period for eligible companies has undermined confidence in the UK's accounting and reporting framework. However, it appears some companies have used the easement to postpone conversion of accounting practices, rather than reduce the costs associated with conversion, as originally intended by the Regulations. The Regulations were intended to strike a balance between the additional costs to companies of making rapid changes to their accounting arrangements with the benefits of comparability that come from recently domiciled UK companies adopting the same standards as existing UK companies, rather than a means of permanently avoiding costs of transition.

The recommendation of this PIR, in the light of these findings, is to remake the Regulations to extend the Regulations beyond their expiry on 30 September 2023, retaining the transition period easement of up to four financial years following UK incorporation; but reforming and simplifying them (i) to drop an expiry date from the legislation and instead require the Government to conduct postimplementation reviews at five yearly intervals to assess whether its policy objectives and compliance with its requirements are being achieved; and (ii) to require companies using the easement to file UK accounts using US or Japanese GAAP to confirm this as a note in their accounts and indicate when they started using the easement and therefore how long this transition period still has to run following their incorporations in the UK.

2. Consideration in the light of the equality duty

This Equalities Impact Assessment seeks to address the findings of this PIR and its recommendations for the extension and revision of the Regulations.

The Regulations assessed for this review potentially apply to companies meeting eligibility criteria, defined as being listed on US or Japanese stock exchanges, who choose to domicile and report in the UK. They concern the accounting approaches used in financial reporting by these companies in the UK, which would be of interest, for example, to their shareholders, investors, and civil society groups.

We do not consider that the Regulations to have any relevance to the equality duty. Therefore, we do not consider it necessary or proportionate to gather equality data for this assessment.

3, 4. Identify and analyse impacts

We have considered the potential and likely impacts of the Regulations in the light of the three aims of the equality duty. Our findings are provided below.

Aim 1 – Eliminate unlawful discrimination, harassment, victimisation, and any other conduct prohibited by the 2010 Act.

The Regulations assessed do not treat any individuals or groups within the meaning of the Act more or less favourably than others, nor are they expected to result in any differential impacts on groups or individuals with protected characteristics. We do not consider them to have impacted people with protected characteristics as a result of them possessing those characteristics, or any unintended impact on any of those groups.

Whilst companies in scope of these Regulations, which choose to use their regulatory easement of UK corporate reporting requirement, certainly may employ individuals who have protected characteristics, the Regulations have impacted on the entire firm or company and not on any specific individual or groups therein. Impact on employees would have been the same, regardless of their individual characteristics.

Where the Regulations have impacted on the accounting approaches taken to prepare annual accounts filed by some companies in the UK, we would expect impacts on users of these accounts, such as investors or shareholders, to apply equally, without regard to their individual characteristics.

Aim 1 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None
Sex	None
*Marriage & Civil Partnership	None

Aim 2 – Advance equality of opportunity between people who share a particular protected characteristic and people who do not share it.

As the Regulations affect company directors on the basis of the accounting approaches taken to financial information in their annual reports, we do not consider there have been any disproportionate adverse impact on any individuals or groups who hold one or more protected characteristics. We have not undertaken any formal consultation specifically to investigate whether particular groups have been less involved in the area covered by these Regulations, which is the preparation of annual corporate reports. There are no practical limitations, based on protected characteristics, to involvement in any of the activities therein. Whilst there may be some existing societal inequalities in this area, these Regulations do not change any aspects of how individuals or groups with protected characteristics engage.

Aim 2 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None

Pregnancy & Maternity	None
Sexual orientation	None
Sex	None
Marriage or civil partnership	None

Aim 3 – Foster good relations between people who share a particular protected characteristic and people who do not share it.

The Regulations are not concerned with promoting actions to tackle prejudice or promote understanding between different groups. Equally, we do not consider the Regulations to have hindered any action to tackle prejudice or promote understanding between different groups or give rise to, or create an increased risk of, discrimination, harassment, victimisation or any other conduct prohibited by or under the Equality Act 2010.

The UK and its population may be expected to benefit from the impact of these Regulations insofar as they are helping to support economic prosperity in the very broadest terms. These wider benefits are applied to everyone in the UK, regardless of whether they have one or more protected characteristics.

Aim 3 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None
Sex	None
Marriage or civil partnership	None

5. Recommendations

We conclude that these Regulations should have no adverse or disproportionate negative impact on persons or groups with a protected characteristic. No steps need to be taken to advance equality of opportunity and foster good relations because of, or in relation to, these Regulations.

These Regulations are not seen to have given rise to discrimination, harassment, victimisation, or any other conduct prohibited by or under the Equality Act 2010. Further, the Regulations did

not make specific or direct provision in respect of any of the protected characteristics, and they were not expected to result in outcomes where people who share particular protected characteristics are treated differently from people who do not. They were not expected to give rise to a direct or indirect impact on individuals as a result of any protected characteristic they may have.

On this basis, we consider it neither necessary nor proportionate to seek further evidence to support this assessment, or to recommend any changes to existing plans.

6. Approach to monitoring

The Department does not intend to monitor the future operation of these Regulations according to public sector equalities duties.

Sign-off:

Name: Andrew Death

Job Title: Deputy Director

Date: June 2023