Title: The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2012	Post Implementation Review
IA/PIR No: BE0001	**Source of intervention:** Domestic
Lead department or agency: Department for Business, Innovation and Skills (BIS)	**Type of regulation:** Secondary legislation
Other departments or agencies:	**Type of review:** Light Touch PIR
	Date of implementation: 01/10/2012
Contact for enquiries: john.conway@bis.gsi.gov.uk	**Date review due (if applicable):**

Summary

1a. What were the policy objectives and the intended effects? (If policy objectives have changed, please explain how).

The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2012 ("the Regulations") permitted companies who were listed on the stock exchanges in USA or Japan, but not in the EU or other countries, to continue to use the Generally Accepted Accounting Principles (GAAP) of the country in which they were listed for financial years ending on or before 31 December 2014 for group accounts of parent companies. The objectives of the Regulations were to:

- support UK economic growth by encouraging US and Japanese parent companies to re-domicile in the UK; and
- maintain the overall integrity of the UK's financial reporting framework whilst doing so.

A company incorporating in the UK is required to prepare its first set of accounts within 18 months of incorporation. UK company law requires that accounts are prepared using UK GAAP or International Accounting Standards (IAS). The costs of transition (or "conversion") are considerable for large and complex companies, especially in their first accounting period in the UK. By allowing a longer timeframe (a maximum of three years) to comply with normal UK reporting requirements, it was expected that companies who re-domiciled would be able to take a more measured approach to the transition process and so avoid the costs arising from making the change in a shorter timeframe.

The Regulations were not intended as a permanent provision. Companies making use of the flexibility were expected to complete the transition within the life of the Regulations. The expiry date of 31 December 2015 allows companies time to prepare and file their 2014 accounts with the Registrar of Companies.

Note: The Regulations apply only to US and Japanese companies, as those from other countries whose national GAAP is 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 EU to be very close to IAS). These companies should not have to make substantial changes to their accounting practices to meet UK requirements.

1b. How far were these objectives and intended effects expected to have been delivered by the review date? If not fully, please explain expected timescales.

The review date of March 2015 was set to give companies time to make use of the flexibility offered by the Regulations to reduce the costs of their transition to reporting under UK GAAP or IAS. When the Regulations were introduced, it was known that at least one company was considering making use of the option. It was expected that this company and other eligible companies who took up the flexibility offered by the Regulations, would have experienced all the associated costs and benefits by this date, and wider effects of the Regulations could be identified.

2. Please provide a brief recap of the original assumptions about the costs and benefits of the regulation and its effects on business (e.g. as set out in the IA).

The Regulations were intended to reduce costs associated with switching to UK GAAP or IAS by ensuring a longer transition period for adoption of domestic accounting principles. By increasing the time available to convert to UK GAAP or IAS, the Regulations reduced the need for additional resource to convert, in particular the costly hiring of specialist external staff.

The Regulations were likely to be primarily of benefit to large and complex companies re-domiciling to the UK from the USA or Japan for which conversion to UK GAAP would be expensive. For the original Impact Assessment it was not possible to estimate the number of companies that would use the provisions in the Regulations. Figures were available on the number of US and Japanese companies that had located a business operation in the UK but this did not indicate whether they met the criteria in the Regulations. Therefore it was decided to adopt a 'case study' approach in the appraisal of the policy. The case study looked at a company that had previously moved to the UK and indicated that it would take-up the benefits of the Regulations. The company was in a complex sector with a £10bn turnover on its consolidated accounts and was a strong example (as its size and complexity were judged to be broadly typical of those companies expected to take up the option) when calculating costs and benefits. It was concluded that this would lead to an annual saving to each affected business of £1.10m. The monetary data received through the PIR suggests that the assumptions in the model were valid: rapid initial compliance with new standards can be costly and therefore the Regulations could produce savings for re-domiciling businesses. It is necessary to caution that the evidence received on savings was indirect / indicative evidence and from a limited number of respondents. However the consultation and other PIR evidence gathering indicates that the initial analysis was correct and that there were no new, direct costs associated with the Regulations.

3. Describe the rationale for the evidence sought and the level of resources used to collect it, i.e. the assessment of proportionality.

The Regulations were de-regulatory in nature and relatively low-impact. The equivalent net annual cost to business of the Regulations was estimated at £-1.10m per company per annum. As the Regulations are low cost it was considered proportionate to conduct a light-touch post-implementation review (PIR) of the Regulations, rather than conducting a full-scale post-implementation review. Furthermore, the policy had a direct impact on a relatively narrow range of stakeholders (i.e. companies listed on the stock exchanges in USA or Japan that have re-domiciled in the UK). There is uncertainty over the exact number of companies that have re-located to the UK. Anecdotal evidence suggests that the numbers re-domiciling vary year-on-year but typically there are, at most, a handful of companies who do so. However we do know with certainty that three companies used the Regulation's provisions.

4. Describe the principal data collection approaches that have been used to gather evidence for this PIR.

There is no proportionate means of identifying how many companies have taken up the option to continue to use US or Japanese GAAP during the lifespan of the Regulations. Consequently monitoring and evaluation data have not been collected during the lifespan of the Regulations.

To inform the PIR an open consultation was conducted that invited responses to an online survey, available through the www.gov.uk website, and by writing to stakeholders that were consulted when the Regulations were produced in 2012, to ask for their views. The review was also drawn to the attention of business representative bodies and national regulatory bodies. The consultation invited responses on the uptake and impact of the Regulations, and the effect of their expiry on the respondents' companies, as well as stakeholders' views on the rationale behind the Regulations and their impact on the integrity of the UK's accounting framework. To supplement the limited number of responses received, the approach of other Member States to the equivalence of other countries' accounting principles was examined as part of the review. See Section 4 of the body of this PIR document for further detail on public responses received.

5. To what extent has the regulation achieved its policy objectives? Have there been any unintended effects? The objectives of the Regulations were to support UK economic growth by encouraging US and Japanese parent companies to re-domicile in the UK, and maintain the overall integrity of the UK's accounting framework whilst doing so. The Regulations sought to achieve this by giving parent companies listed on the securities and stock exchanges in USA or Japan a maximum transition period (up to three years) after domiciling their company here to make the transition to preparing group accounts in line with UK GAAP or IAS as required under UK law to reduce the associated costs.

The Regulations have achieved their objectives to the extent that some companies are known to have: 1) used the flexibility offered by the Regulations; and 2) considered the existence of the Regulations as a factor when assessing the advantages of domicile in the UK.

There is no evidence[1] to suggest that the existence of an extended transition period for eligible companies has undermined confidence in the UK's accounting framework more generally[2].

Those companies using the Regulations that have responded to our PIR survey appear to have used them to postpone transition to UK accounting principles and so avoid the associated costs. Respondent A, a US listed company which has re-domiciled to the UK commented that: "We have not converted our financials to UK GAAP or IAS pending the outcome of our request to extend the Regulations." This respondent also stated that the benefits offered by the Regulations was "not a meaningful factor [in the decision to re-domicile in the UK] in consideration of the other benefits of re-domiciliation". Respondent B, another US listed company which has domiciled in the UK[3], also stated that they had made significant short term savings from the Regulations but, like the previously quoted respondent, they had not used this period to make the transition to UK GAAP or IAS. Respondent C has also postponed transition until the expiry of the Regulations. Both Respondents B and C considered the Regulations to be an important factor in their reasons for being domiciled in the UK.

It is not clear whether the experience of these three companies and their approach to the Regulations is more widely representative of other US/Japanese listed companies that have re-domiciled to the UK. The company experiences represented by the consultation responses may, to a certain extent, be biased. This is because companies who have not undergone the expected transition and have found the delay beneficial may have disproportionately responded to the consultation, in order to request an extension of the Regulations.

Overall the total number of companies affected by the Regulations is likely to be in single figures. It is believed that the companies that benefited from the Regulations are almost certainly listed in the USA, as many Japanese companies have moved to IAS. (As the Japanese stock market permits the use of IAS for specified companies there is no real need for dual filing).[4]

This PIR found that original Impact Assessment's assessment of the Regulation's costs and benefits was broadly correct. One additional benefit (audit savings) and no additional costs were identified. Responses received tentatively suggest that: 1) Familiarisation costs may have been higher than originally anticipated; and 2) savings to business differ on a company by company basis – with responses suggesting both higher and lower benefits than our original estimates.

[1] Paragraph 41 highlights the companies and organisations that BIS contacted to gather evidence for this PIR – and details of the responses that we received. We have anonymised responses received.

[2] Our PIR survey asked specific questions about the impact of the Regulations on the UK's wider reporting framework and from the responses that we received did not find any evidence that they had harmed UK's financial reporting regime.

[3] A number of respondents noted that Irish legislation permit the filing of statutory accounts using US GAAP through the year 2020.

[4] PWC report 2014

6. What next steps are proposed for the regulation (e.g. remain/renewal, amendment, removal or replacement)?

The current Regulations have effectively expired as they only apply to accounting periods ending on or before 31 December 2014.

There are three main policy options going forward:

- **Option 1 - Do nothing -** This would be consistent with the original intention, which was for the Accounting Standards Regulations to expire in December 2015 (and corresponding assumptions in the Impact Assessment). The Regulations were introduced as a temporary measure to enable companies a reasonable period to transition to UK GAAP or IAS. This was reflected in the corresponding assumptions in the Impact Assessment.
- **Option 2 - Extend the Regulations to cover financial reporting indefinitely for reporting years beyond January 2015:** This option is likely to be popular with those companies that have benefited from the Regulations, or those considering re-domiciling to the UK for whom this is an important factor. It would mean that companies listed on stock exchanges in USA or Japan would not have to produce parallel accounts for the UK and the relevant stock exchange. It would bring the UK into line with the two other European jurisdictions that permit filing in US and Japanese GAAP: Ireland (though their provisions expire in 2020) and Switzerland. However, one accountancy stakeholder has commented that [a permanent extension means] "there is a risk that the UK's public support for IAS is questioned and that companies following other foreign GAAPs (not recognised as equivalent by the EU) come to believe that they have grounds to lobby for similar concessions". This would also be inconsistent with the Regulation's original intention to maintain the integrity of the UK's accounting framework
- **Option 3 - <u>Recommended option</u>**: **Introduce new regulations to provide a rolling transition period** (up to four years) for parent companies that re-locate to the UK from USA or Japan to convert to preparing accounts to UK GAAP or IAS.

Option 3 is our recommended option. It provides companies the option to make use of a longer transition period, avoiding the costs to business, which arises from conversion to UK accounting principles in a short timeframe. Three years was suggested by stakeholders in response to the consultation on the 2012 Regulations as a reasonable period of time to make the transition to UK GAAP or IAS. We have decided to offer four years as this offers a greater flexibility for companies that will not harm the integrity of the UK's accounting framework (which could be the case if some companies indefinitely did not use UK GAAP or IAS) and would be perceived as an additional benefit within the wider mix of wider benefits that companies consider when choosing to re-domicile in the UK. We believe that this will make the new Regulations more beneficial than the provisions in the earlier Regulations and more beneficial than the do-nothing option.

A maximum period for transition also gives clarity to companies/investors about when transition is expected and should make it clear that the costs of transition can be reduced (by undertaking the work over a longer timeframe) or deferred but not indefinitely postponed – i.e. the four years starts from the date of incorporation, including for those already incorporated here. By requiring companies which re-domicile here to make the transition to UK GAAP or IAS, this ensures that post-transition any UK investors, lenders and creditors will be able to access financial information that is directly comparable to that of other UK companies.

It is proposed that new legislation would be reviewed five years after it has come into force. This is to allow sufficient time for evidence regarding its overall effectiveness and impact to be

<u>Sign-off</u> For Post Implementation Review:

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

Signed: Date: xx/xx/xxxx

Structure of the Post Implementation Review

- **Section 1: Executive Summary**
- **Section 2: Summary of the original Impact Assessment**
- **Section 3: Review of impact of the Regulations and assessment of the analysis of costs and benefits of the preferred option (Option 1) in the original Impact Assessment**
- **Section 4: Public Responses to the PIR**
- **Section 5: Future of the Regulations**
- **Section 6: Conclusions**
- **Annex: Accounting Framework in other countries**

Section 1: Executive Summary

Background

The Plan for Growth (March 2011)[5] committed the previous Government to promote economic growth by ensuring that regulation of business was proportionate and cost effective. Financial reporting is a vital component in maintaining effective business relationships. Clearly in any legislative intervention regarding financial reporting it is important to maintain the integrity of, and confidence in, the UK's well-respected accounting and financial reporting framework whilst avoiding placing unnecessary burdens on business.

The Accounting Standards (Prescribed Bodies) (United States and Japan) Regulations 2012[6] ("The Regulations") drew on provisions brought into effect by European Commission Decision 2008/961/EC[7]. The Regulations gave parent companies listed on the securities and stock exchanges in the USA or Japan an extended period of time in which to make the transition to prepare their group accounts in line with the UK accounting principles (UK GAAP[8] or IAS[9]), as required under UK law after domiciling their company here. The Regulations were a means of reducing transitional costs for such companies which otherwise would be required to produce accounts according to UK GAAP or IAS in their first accounting period. They were not intended as a permanent provision and will expire in December 2015. This meant that in practice affected parent companies should have converted to UK GAAP or IAS by December 2015.

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5 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31584/2011budget_growth.pdf
6 http://www.legislation.gov.uk/uksi/2012/2405/made?view=plain
7 http://www.betterregulation.com/external/reg2008_961_EC.pdf
8 GAAP stands for Generally Accepted Accounting Principles.
9 The International Accounting Standards (IAS) is set by the International Financial Reporting Council and is also known as IFRS.

The impact of the Regulations was analysed in Impact Assessment BIS0355[10]

Purpose of the Review

The purpose of the review was to examine the extent to which the Regulations have achieved their objectives of:

- supporting growth by encouraging US and Japanese parent companies to re-domicile in the UK; and
- maintaining the overall integrity of the UK's accounting framework whilst doing so.

A targeted consultation of interested parties took place before the Regulations were introduced in 2012. Although a number of organisations expressed reservations about the Regulations, they were supported by the majority of respondents. It was concluded that although it was likely only a few companies would benefit from the provisions, those that did would be economically important.

When the Regulations were introduced in 2012, the Government publicly committed in its Impact Assessment to conduct a post implementation review (PIR) of the Regulation's operation.[11] This review will be used to inform future policy in this area, in particular whether the Regulations should be re-made in some form or allowed to expire. The review looks at:

- evidence on the impact the Regulations have had - and in doing so provides an assessment of the validity of the assumptions of the original Impact Assessment (section 3);
- the impact of the policy on the UK's wider accounting framework, external views on the Regulations (section 4); and
- whether the Regulations should be allowed to expire (Option 1) or be re-made in some form (Options 2 and 3) (outlined in section 5).

Conclusions

Review of the original Impact Assessment assumptions

The evidence gathered through this PIR suggests that the analysis of the original Impact Assessment was broadly correct in identifying the costs and benefits of the Regulations. One additional benefit (saving of money spent on auditing two sets of accounts under different accounting principles) and no additional costs were identified. However the small number of quantitative responses received tentatively

[10] http://www.legislation.gov.uk/uksi/2012/2405/pdfs/uksifia_20122405_en.pdf

[11] Furthermore in 2014 the Accounting Team in BIS received correspondence from two organisations requesting that the Regulations should be re-made or extended.

suggests: 1) Familiarisation costs may have been higher than anticipated; and 2) administrative and financial savings to business as a result of the Regulations differ on a company by company basis – with some companies suggesting the benefits arising to them were lower, and two others suggesting they were higher than anticipated in the original Impact Assessment.

To what extent has the policy achieved its objectives?

The Regulations, by providing a longer period for re-domiciling companies from the USA and Japan to transition to UK GAAP, were intended to:

- support growth by encouraging US and Japanese parent companies to re-domicile in the UK; and
- maintain the overall integrity of the UK's accounting framework whilst doing so.

The PIR evidence confirms that there is a cost to transition to UK accounting principles. There is indicative evidence from correspondence with stakeholders and consultation responses that the provisions in the Regulations were known to business and that some companies could have made savings as a consequence of the Regulations. This also suggests that the provisions will have made the UK more attractive to companies considering domiciling in the UK. Indeed one stakeholder (Respondent B) classed the Regulations as "very important" in their decision to domicile in the UK. However it is hard to verify the extent to which decisions regarding companies' country of domicile have been influenced by the Regulations, and the extent to which companies have benefited from the Regulations, given the difficulty (noted in the original Impact Assessment) of identifying companies who have been affected by the Regulations that have not responded to the consultation.

The PIR has confirmed that at least three companies used the provisions. Yet these companies chose to postpone the cost of transition to UK accounting principles rather than use the Regulations to reduce the cost of their transition. This was not the intention of the Regulations. However, it is possible that there could be other companies that have not come forward as part of the review, that have used the Regulations as originally intended. It seems probable that companies that were keen to see an extension for the exemption were more likely to respond to the consultation than those using who had already completed the transition to UK accounting principles. Therefore it is possible that the responses received as part of the post implementation review survey could, to a certain extent, be biased.

Given the uncertainty over the number of companies that have re-domiciled as a result of the Regulations, it is difficult to draw strong conclusions about whether the Regulations have had a positive impact on economic growth within the UK. We can

confirm however that the Regulations do not appear to have harmed the integrity of UK's accounting framework despite evidence that a small number of companies have not changed to UK accounting standards as expected **in the short term**.

Have there been any unintended consequences?

As noted above stakeholder responses have revealed that some eligible companies have used the transition period to postpone rather than complete the move to UK GAAP or IAS.

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

The Regulations were intended to reduce costs to business. They were not intended as a permanent provision and will expire in December 2015. This means that in practice affected parent companies will need to have converted to UK GAAP or IAS by December 2015. Without further intervention, relevant companies re-domiciling in the UK would need to make the transition to preparing UK GAAP or IAS-compliant annual accounts within the 18 month timeframe and absorb the corresponding costs. If we wish to continue to give eligible companies, who choose to domicile in the UK, the opportunity to reduce the costs of conversion then the Regulations will need to be remade in some form. Our preferred option is to remake the Regulations in revised form (option 3 described below), as the economic rationale underlying the introduction of the original Regulations remains. Given the evidence gathered by this PIR, it still seems reasonable to conclude that the costs of conversion can be reduced by an extended timeframe, and that this provision does not harm the overall integrity of the UK's financial reporting regime.

What is the scope for simplification or improvement?

We recommend remaking the Regulations (option 3) to give companies that choose to re-domicile in the UK, and that are listed on stock exchanges in USA or Japan, a maximum transition period (four years) to convert their group accounts to UK GAAP or IAS on a permanent basis (with scope for review). This would show the UK's willingness to take a flexible approach to financial reporting requirements in the short term where it does not undermine the value placed by the UK on comparability and transparency of reporting. A rolling transition period would also make it clear that conversion to UK GAAP or IAS cannot be postponed indefinitely and so avoid the unintended consequence of the Regulations highlighted by the consultation (e.g. it does not give those in the UK now an additional four years to convert). Alone this policy would not attract many companies to domicile in the UK but it is reasonable to assume that this provision would be perceived as an additional benefit within the wider mix of benefits that companies consider when choosing a country in which to re-domicile.

It would be possible to re-make the Regulations to allow that companies listed on stock exchanges in USA or Japan already resident in the UK to use this transition period, effectively giving these companies another a further few years to complete the transition. However there are concerns that:

1. Responses to the consultation indicate some companies do not appear to have used the transition period allowed under the existing Regulations, as intended, to begin conversion of their accounts to UK GAAP.

2. This would require retrospective application of any new regulations.

3. The UK has a well regarded national reporting framework and supports the use of International Accounting Standards as an alternative.

Do compliance levels indicate that the enforcement mechanism chosen is appropriate?

An enforcement mechanism was not required as the Regulations were de-regulatory and provided an option to reduce accounting transition costs which eligible companies could choose to apply if it was in their business interest. Non-enforcement and non-compliance were not issues with this policy as it was expected that business would only adopt the Regulations if it was in their commercial interest.

Section 2: Summary of the original Impact Assessment

Problem under consideration

1. Under the Plan for Growth 2011 the previous Government committed to ensuring that regulation supported the priority to make the UK one of the best places in Europe to start, finance and grow a business. This PIR looks at whether the Regulations have succeeded in their intention to reduce unnecessary costs on companies that have chosen to re-domicile in the UK and the validity of the Regulations' Impact Assessment.

2. Companies that are incorporated in the UK prepare their accounts using UK GAAP, applying standards set by the Financial Reporting Council (FRC), or IAS which are set by the International Accounting Standards Board (IASB). The aim is to ensure quality and consistency in the presentation of accounts so that users of accounts (particularly company shareholders) can analyse and compare information.

3. Companies may use other accounting frameworks or standards before relocating their headquarters to the UK and change their accounting system to UK GAAP or IAS. The Impact Assessment identified that significant costs are incurred when changing from a third-country GAAP to UK GAAP or IAS regardless of the time frame for conversion. These costs will remain for companies despite the Regulations.

4. However, before the Regulations were introduced a parent company that relocated and incorporated in the UK would be required to file its first set of financial accounts in UK GAAP or IAS within 18 months at Companies House. For a large company operating in a complex sector that operates in a high number of countries this is a challenging timeframe in which to convert their accounts. Additional costs can arise if a company converts to UK accounting principles in an accelerated time frame, including the premium associated with hiring and/or training external accounting resource. These would not have otherwise been incurred under a more lenient conversion period. The Regulations were brought forward to reduce these costs by allowing a longer period of time to undertake this exercise.

Rationale for intervention

5. The Regulations were introduced to support the previous Government's policy of encouraging inward investment and improve productivity, competition and innovation within the UK economy[12]. It also supported the commitment to ensure regulation promotes economic growth, innovation and social action.

[12] See wider impacts section in Impact Assessment BIS0355 for more information

6. The Regulations ensured an explicit maximum transition period allowing a company incorporating in the UK that was listed on a Japanese or US stock exchange but not listed in a European Member State to continue preparing its group accounts using US or Japanese GAAP for a period of up to three years following incorporation.

Policy objective

7. The Regulations were directed towards companies moving their head office to the UK. The aim was to provide a longer timeframe to convert accounts to UK GAAP or IAS and reduce the costs involved with an 18-month transition which would require additional expensive resource, perhaps including external contracting. The Regulations were introduced to apply to group accounts for financial years ending on or before 31 December 2014. The Regulations remain in effect until 31 December 2015 to allow time for the preparation and filing of accounts relating to those financial years.

8. It is important to ensure consistency in the preparation of accounts by UK-incorporated companies for the benefit of preparers, shareholders, creditors and other stakeholders. Therefore, companies taking advantage of the transition to UK GAAP or IAS were still required to ensure their annual accounts met the UK's legal requirement that they give a "true and fair view" of the company's financial performance and position.

Options considered

9. The original Impact Assessment looked at three options:

- **Option 1 (adopted option)** - The introduction of a three year transition period for UK-incorporated companies that meet specified criteria to convert accounts to UK GAAP or IAS from Japanese and US GAAP (companies re-domiciling from those countries whose accounting practices are deemed 'equivalent' to IAS by the European Commission but whose practical differences would make an accelerated transition very costly).

- **Option 2** - Do nothing.

- **Option 3** - Introduce a transition period for UK-incorporated companies to convert to preparing accounts to IAS or UK GAAP from any accounting principle.

10. The Regulations implemented Option 1 by effectively giving relevant companies until the end of fiscal year December 2014 to convert to UK GAAP or IAS.[13] Option 1

[13] See BIS0355 for detailed description of each of the options.

was viewed as supporting the need for consistency in financial accounts while recognising the equivalence of accounting principles in Japan and the USA. The preference for Option 1 was based on the case study approach in the Impact Assessment which determined the relative merits of the policy proposal and found that significant savings would be made by large, complex companies. It was also based on the understanding that a work programme was resolving many of the major differences between US GAAP and IAS.

11. Option 2 was rejected on the grounds that it would not offer any flexibility or savings to business. Option 3 by giving a transitional period for incorporated companies to convert from any third country accounting principle would have offered cost savings to a wide range of companies that re-domiciled in the UK. However this option was rejected on the grounds that the accounting principles in some third countries were not deemed as equivalent by the EU which would cause difficulties to users of accounts. It was also felt necessary to minimise the need for users of annual accounts to be proficient in multiple accounting principles.

More detail on Option 1 – Introducing a transition period

12. The adoption of Option 1 ensured that companies who were:

- incorporated in the UK;
- not listed on a European Economic Area (EEA) stock exchange;
- with securities registered in the USA or admitted to trading on Japanese stock exchanges
- who prepare their accounts approved by the following prescribed bodies:

  1. US GAAP: Financial Accounting Standards Board - FASB (this is the USA Board); and

  2. Japanese GAAP, which includes the Accounting Standards Board of Japan.

could use the accounting principles authorised by the bodies prescribed in the Regulations for periods on or before December 2014[14] for their group accounts. The accounts were still required to meet the UK and EU's statutory requirement to present a "true and fair" view of the company's accounts.

13. The Regulations created two prescribed bodies for the purposes of section 464 of the Companies Act 2006 in addition to the Financial Reporting Council. These

[15] Now updated and consolidated in the new Accounting Directive 2013/34/EU implemented by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. BIS's Final Stage Impact Assessment provides more detail: http://www.legislation.gov.uk/uksi/2015/980/impacts/2015/227

newly prescribed bodies were given responsibility in UK law for the creation and maintenance of the GAAP in the USA and Japan.

Basis in EU law

14. A significant proportion of the UK's accounting rules are based on European requirements which are set out in EU legislation[15]. The Regulations had regard to European Commission Decision 2008/961/EC which provided that as of 1 January 2012, the accounting principles of six countries (Canada, China, India, Japan, South Korea and the USA) were equivalent for the Transparency and Prospectus Directive purposes[16]. However, Canada, India and South Korea allowed companies to use IAS and Chinese GAAP were considered to be extremely close to IAS. Since companies from these countries would not face any substantial costs to meet UK accounting practices it was not necessary to extend the Regulations to bodies responsible for issuing accounting standards in these countries.

15. Before determining that another country's GAAP could be considered "equivalent" to the GAAP of an EU Member States or to the IAS, the Commission first examined a number of factors. These included that the accounts drawn up in accordance with third country GAAP principles must allow investors to make decisions about: liabilities, financial position, profit and losses; and prospects of the issuer. It was also necessary that those GAAP principles must allow investors to make decisions about the acquisition, retention or disposal of securities of an issuer.

[15] Now updated and consolidated in the new Accounting Directive 2013/34/EU implemented by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. BIS's Final Stage Impact Assessment provides more detail: http://www.legislation.gov.uk/uksi/2015/980/impacts/2015/227

[16] As required by Directive 2004/109/EC on the harmonisation of transparency requirements.

Estimation of the number of companies that benefited from Option 1

16. The Impact Assessment did not provide an estimate of the number of companies that would benefit from the Regulations. EY European Investment Monitor data listed 1,320 US companies and 164 Japanese companies that had located a business operation in the UK during the period 2007 to 2011. However, this did not provide sufficient information to show which of these companies incorporated their headquarters in the UK; nor was there sufficient information available to determine whether they met the requirements set out in the regulations, i.e. that the company was not listed in a 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, it was expected that fewer would consider the savings to be sufficiently significant to consider adopting the transition period.

17. This was further complicated by the probability that only large, complex companies would opt in to take advantage of the Regulations (the costs of conversion were not considered significant for small to medium companies with relatively simple corporate structures). Further, the commercial sensitivity surrounding a decision to re-domicile to the UK also limited BIS officials' access to such information. The Accounting Team in BIS considered whether further research could be done to drill down into the 1,484 companies the EY report stated had relocated to the UK, but the level of detail required to determine whether these companies had met the various conditions within the Regulations was viewed as disproportionate for a de-regulatory measure. In addition, these companies could not be expected to have a significant operation in the UK, which increased the difficulty in gaining sound information. This process was deemed to be too speculative.

18. Our contact with stakeholders during the consultation period before the Regulations were made did, however, indicate that while few companies would benefit from these Regulations, those that did would be economically significant. For these reasons it was decided to take a case study approach to our analysis of the Regulations' impact. This enabled us to gain reliable data from a company that was willing to provide detailed information.

19. The Accounting Team in BIS approached two companies with relevant experience of moving to the UK from the USA to assist in calculating the costs and benefits of this policy. The first company had recently moved its head-quarters from the USA to the UK and had made the change from US GAAP to IAS. The second company had recently decided to make the same move and was likely to be able to benefit from the Regulations.

20. It was not possible to estimate the number of companies that would choose to move from the USA or Japan to incorporate to the UK that would (1) fit the criteria set out in the regulations; and (2) be large and complex enough to consider the transitional period to be beneficial. Until a company announces it is going to move its headquarters to the UK, this information is treated as commercially sensitive.

21. When determining costs and benefits, it is important to note that the Regulations were enabling and there was no compulsion for companies to take-up the provisions made possible in the Regulations. Companies would self-select to use these provisions only if they believed the benefits (i.e. cost and time savings) were significant, and outweighed any costs that may be incurred in complying with the Regulations.

Costs and benefits

Option 1 - Introduce a transition period where specified third country GAAPs can be used

Costs

22. Costs incurred familiarising companies with the new Regulations were expected to be minimal. Companies needed to consider the following issues when considering whether a company was eligible:

- Is the company incorporated in the UK?
- Is the company listed in a European Economic Area state? If it is, it will not be able to take advantage of this concession.
- Are the company's securities registered in the USA or admitted to trading on Japanese stock and security exchanges?
- Is the third country GAAP under consideration implemented by a prescribed body listed in the Regulations? It will only be able to take advantage of the transition period if it is.
- Will significant savings be made by taking advantage of the transition period to use UK GAAP or IAS for its group accounts?

23. In 2012 when the Regulations were being developed it was expected that there would be a limited number of companies that would meet the conditions set out above. The Regulations would only provide financial benefits to companies intending to re-domicile to the UK from the USA or Japan, which required additional time to convert their accounting practices to UK GAAP or IAS.

24. It was clear that this was short, simple legislation that would be of interest to a small number of companies. This was particularly the case as consideration whether to take advantage of these Regulations would form part of the wider, more complex exercise of deciding whether to convert accounts to UK-GAAP or IAS. The Regulations merely provided an additional option to consider during the exercise i.e. whether the costs of converting would be reduced by a longer transition period. Therefore, costs for familiarisation were not monetised.

25. Consideration was given to whether there would be new costs for investor organisations that would have to analyse accounts that use alternative accounting principles to UK GAAP or IAS. In effect, a company that took advantage of the transition period would continue to prepare their accounts using US or Japanese GAAP, which they did before incorporation in the UK. As any UK-based investor groups would have received previous accounts in US or Japanese GAAP, there would not be any new costs in receiving them in this same form for an additional three years.

26. It was recognised that UK investor companies would prefer to receive accounts in UK GAAP or IAS because they would be simpler to analyse and that there would be a loss of benefit due to inconsistency. The small number of companies that were expected to opt in to benefit from these Regulations appeared to make this cost immaterial. Furthermore, it would be for a transitional period only. This conclusion was supported by the absence of concern raised by the investor groups that were directly contacted during the consultation. Since policy considerations ruled out the adoption of the other options it was not considered proportionate to estimate their costs.

Benefits of Option 1

27. As mentioned above it was not possible to estimate the population of companies that would take advantage of the Regulations for the original Impact Assessment, though it was clear that it was limited. When the Regulations and Impact Assessment were being developed the Accounting Team in BIS was aware of one company that was in the process of relocating its headquarters to the UK and would be able to benefit from the Regulations. Whilst this was a minimum population of beneficiary companies, it was necessary to make an assumption about the degree of future take up. The company in question has not subsequently divulged whether it made any savings from the Regulations in correspondence for this review.

28. The Republic of Ireland introduced similar legislation in December 2009. It was assumed as a best estimate the UK would experience a similar take-up rate of

one company per year despite the fact the UK's larger economy might attract a larger inflow. Adjusting for the larger size of the UK economy produced our high-end estimate. Our calculations were explained in detail in BIS 0355.

29. **Case study - model Company:** For the case study the Accounting Team in BIS took a company within a complex sector with a $10bn turnover on its consolidated accounts, which operates in 120 countries as a model to calculate the benefits. This reflected one of the companies that provided us with information regarding costs and benefits of these regulations. This company had recently decided to move to the UK and had indicated its intent to take advantage of these regulations and was considered as an extremely strong example when calculating costs and benefits.

30. Stakeholders from industry to the original consultation suggested that only large companies with high levels of complexity would gain substantial benefits from the Regulations and, as they applied to the group accounts, the expectation was that companies that would be interested in gaining these benefits would operate in a significant number of countries. Therefore, the model company was considered to be reasonably representative of large, complex companies that the Regulations were designed to support. Subsequent contact with stakeholders in business, and senior representatives from the accountancy and audit sectors, have confirmed that this assumption was accurate, and that the costs of modifying an accounting system is magnified by the size and complexity of a company, and the timescale involved.

31. There were three elements in calculating the benefits of these regulations, these were:

- The costs associated with converting accounts to IAS to the normal timetable (18 months);
- The additional costs associated with converting accounts to IAS to an accelerated timetable; and
- The adjustments to the accounts required to provide the statutory requirement for accounts to give a true and fair view.

Costs of converting accounts to IAS

32. For the original Impact Assessment there were two sources used to estimate the costs of conversion from US GAAP to IAS - the Securities Exchange Committee (SEC) in the USA and the Institute of Chartered Accountants of England and Wales (ICAEW) in the UK.

33. For a number of years, the SEC had been considering whether to allow the use of IAS for US-listed companies. In 2008, it examined the costs of converting from US GAAP to IAS and issued guidance.[17] This guidance estimated the cost of IAS implementation to be between 0.125% and 0.13% of a company's revenue. Therefore, these percentages were applied to our model US company with consolidated revenue of $10 billion, the SEC would estimate convergence to IAS to cost of between $12.5million and $13 million.

34. The ICAEW estimated that the cost of IAS implementation to be 0.05% for companies with more than €5 billion of revenue. Applying this test to the same model resulted in costs of $5 million. Taking the SEC's and ICAEW's estimations, we expected implementation of IAS for our model company to cost between $5 million and $13 million, should the company not have to convert to UK accounting principles within 18 months. The assumption was that the $5 million to $13 million range refers to conversion to IAS under a three year timetable.

35. The SEC made its estimation as part of its on-going consideration whether it should allow the use of IAS in the USA. The ICAEW was also estimating for the purposes of calculating possible USA sign-up to IAS. Should the USA decide to mandate IAS, it was considered likely to allow a number of years to converge (certainly more than three years). Therefore, our example of considering a three year period to converge did not necessarily reflect the ICAEW or SEC timetable but instead reflected the period that has been suggested by stakeholders to be a reasonable period of time to make the transition from US GAAP to IAS. Hence the decision for the Regulations to expire in December 2015.

36. It was expected that these costs would be accrued by any company that re-domiciled to the UK from a third country. The purpose of estimating the costs of convergence by the SEC and ICAEW was to determine the costs that US business would be exposed to, should the USA require listed companies to use IAS. It was a reasonable assumption that the US authorities would give US business a significant period to make that conversion should they introduce IAS.

37. Regardless of the time period allowed for transition to UK accounting principles, it was recognised that companies would nevertheless have to undergo a costly adjustment process. However, additional costs would be accrued should it prove necessary to accelerate convergence to IAS within 18 months. For example, a shorter period for adjustment rendered the process more costly due to the potential need to hire relatively expensive external accounting capacity to enable the company to convert within the prescribed time period. While this represented

[17] Page 117 of http://www.sec.gov/rules/proposed/2008/33-8982.pdf

a cost to the business which would have otherwise not been incurred under a more lenient time frame for adjustment, it needed to be offset against the reduction in internal effort that would have had to be expended at a later date with a longer time frame for adjustment. The cost calculations adopted this methodology in order to arrive at a "net cost" figure for the additional cost of an accelerated time frame and therefore a net saving of approx. £1m by bringing the Regulations into force.

38. Cost savings from allowing an extended period of adjustment are therefore generated by reduced reliance on costly external accounting resource. The benefits that the Regulations provide are the costs that a company will save by not having to follow the accelerated timetable for conversion of accounts to IAS. The savings were estimated to be on a scale between £0.1m and £6.84m. The best estimate gave a business net present value of £3.47m over the life of the policy (December 2014).

39. For the original Impact Assessment, given the specialist nature of this policy issue, it was decided to undertake a targeted consultation with interested parties. As expected, a general theme that ran through the majority of responses was that while few companies would benefit from these regulations, those companies that did would be economically significant. The Regulations would ameliorate a potential barrier to relocating a company to the UK and, despite the temporary nature of a transition period, it would lead to benefits to the wider economy by making the UK a more attractive place to locate and grow a business.

Summary and Impact Assessment preferred option

40. The Regulations 2012 ensured a transition period for UK-incorporated companies that met specified criteria. By providing that certain US and Japanese bodies are prescribed bodies for a period of three years, the use of accounting standards issued by those bodies (US and Japanese GAAP) in the preparation of Companies Act 2006 group accounts for certain companies could be accepted. Companies were effectively granted a three-year transition period to convert their accounts to UK GAAP or IAS from Japanese or US GAAP.

Section 3: Review of impact of the Regulations and assessment of the analysis of costs and benefits of the preferred option (Option 1) in the original Impact Assessment

Post Implementation Review on the costs and benefits of the Regulations

41. To make an assessment of the costs and benefits of the Regulations since implementation the Accounting Team in BIS has conducted the following research:

- Reviewed the assumptions in the case study to reflect feedback from affected companies.
- Contacted representative and partner organisations to try to ascertain the number of companies that have taken up the option of filing accounts according to US or Japanese GAAP.
- Placed a survey online from 4 December 2014 to 16 January 2015 that invited feedback on the costs and benefits of the Regulations.[18]
- Contacted 26 stakeholders including accountancy firms, accountancy 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 the UK's accountancy framework.
- Overall, from this evidence gathering, we received five stakeholder responses that are detailed in this PIR.

Costs

42. Two re-domiciled respondents (referred to as Respondents "A" and "B") to the review provided information on familiarisation costs arising as a result of the Regulations. Our original analytical assumption was that the familiarisation costs resulting from the Regulations would be minimal. Respondent A suggested familiarisation with the Regulations would involve up to five senior managers and up to five professional staff members. This respondent believed it would take these staff 2,980 hours to familiarise themselves with the Regulations.

43. Respondent B suggested that familiarisation with the Regulations would involve: 32 hours in total for four directors; 80 hours in total for two senior managers/professionals; 120 hours for three middle managers/senior officials; 40

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

hours for one junior professional / associate professional or person in a technical occupation. Respondent B also suggested that they incurred costs of £200,000 for consultation with regulatory experts.

44. Therefore these two respondents suggest that there were familiarisation costs for re-domiciling companies that were affected by the Regulations. The evidence gathered also suggests that these costs could have been greater than suggested in the original Impact Assessment. However given the small response rate on the question of familiarisation costs, this conclusion should be treated tentatively as they may not be representative of all companies that have re-domiciled to the UK.

45. Responses to the PIR consultation have not uncovered any evidence that investment companies incurred costs analysing accounts that use alternative accounting principles to UK GAAP or IAS. This is in line with our original Impact Assessment.

Benefits

46. Conversion to UK GAAP or IAS for re-domiciling companies is expensive from the outset. One of the main benefits of the Regulations is that there can be savings to business that arise through lengthening the transition period. The responses to the PIR confirmed that these benefits of this type arose to companies that took up the Regulations.

47. Respondent A estimated that the incremental cost of compliance in the first year would be £567,900 (including both internal and external costs). In subsequent years compliance would range to a cost of up to £377,500 per year (including both internal and external costs). Respondent B estimated savings of £325,000 – from not having to increase the internal accounting staff resource to perform the conversion of accounts and 'not incurring costs from our audit firm to audit two basis of accounting'. The audit firm saving was a benefit that was not included in the original Impact Assessment analysis of benefits of the Regulations. Further evidence on the cost of conversion was provided by re-domiciled Respondent C 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 in addition general and administrative costs to maintain these records".[20]

[19] Respondent C 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 ($1=£0.6750), taken for the Financial Times Markets Data Archive: http://markets.ft.com/research/Markets/Currencies

[20] Respondent C did not comment on familiarisation costs.

48. Overall the responses received, although few and potentially not representative of companies that choose to re-domicile, suggest the original Impact Assessment's analysis that benefits from the Regulations would arise in terms of avoided internal and external staff costs was broadly correct. The responses suggest the size of the benefits of the Regulations can differ significantly on a company by company basis. Evidence gathered as part of this PIR suggests that for some companies the benefits were lower than suggested in the original Impact Assessment, and for other companies the benefits exceeded BIS's original estimate of per company benefits.

Economic Impact

49. In relation to the economic impact of the Regulations, in 2014 an accountancy stakeholder informed BIS that they were aware of at least five separate clients that had considered the expiry of the Regulations to be an important factor in their decision not to incorporate in the UK. It was not clear however from this response whether this was due to the forthcoming expiry of the transition period permitted by the Regulations or the absence of a permanent provision for filing accounts in US GAAP. In this instance, the UK's environment was contrasted with the position in Ireland. Respondents B and C also stated that this issue had an economic impact and was a significant consideration regarding whether companies chose to headquarter in the UK. However, this view differs to that of Respondent A which had benefited from the Regulations and argued for their extension but stated that they "were not a meaningful factor" in their decision to domicile in the UK.

Section 4: Detail on responses to the Post Implementation Review

Re-domiciling companies

50. Respondent A provided detailed information to support their view that the preparation of accounts under IAS in addition to the preparation of US GAAP accounts required by the US SEC would result in "significant additional costs without providing commensurate benefit to investors". Respondent A estimated that the incremental cost of initial IAS compliance in the first year would lead to an additional cost of approximately £567,000 including both internal and external costs.

51. Respondent A expected its incremental costs of IAS compliance in subsequent years to range up to a cost of up to £377,500 per year, inclusive of internal and external costs. Internal costs include the costs of existing employees and anticipated new staff. Respondent A's preference was for the Regulations to be extended. However regarding the decision to domicile in the UK, it stated that the Regulations "were not a meaningful factor".

52. Respondent B believed that the expiry of the Regulations was likely to have an impact on their future plans for the location of the company's HQ. Respondent B noted that, "We are not required under US GAAP to componentize our PPE [Property, Plant and Equipment]. Componentization of PPE creates a significant change to our accounting and will require a significant amount of effort to convert and maintain".

53. Respondent C requested an extension to the Regulations that would "prevent us from incurring the significant expenditures required to become compliant under UK GAAP or IAS, and will continue to allow us to file a single set of group accounts in US GAAP". Respondent C argued that the initial conversion to IAS would require significant internal resources, in addition to obtaining "outsourced consulting professionals". This respondent estimated that the initial implementation project would cost approximately £2.025 million in addition to an increase of approximately £1.35 million per year in general and administrative costs.

Accountancy and audit stakeholders

54. An accounting and audit stakeholder, Respondent D stated that they were not aware of "a client taking advantage of these Regulations". The respondent did not see a case for extending the concession beyond the expiry date of the original regulations.

55. Respondent E, another accountancy stakeholder, supported the 2012 Regulations as a “practical expedient” that allowed relevant US and Japanese companies a reasonable period of time to make the transition to preparing group accounts under IAS (or UK GAAP). However, this was predicated on the assumption that this was not intended as a permanent relief. Respondent E preferred the Regulations to expire at the end of 2015, as intended especially given that, if an indefinite relief was granted, “there is a risk that the UK’s public support for IAS is questioned and that companies following other foreign GAAPs come to believe that they have grounds to lobby for similar concessions”.

56. Nonetheless, Respondent E did not object to a short extension of the provisions of the Regulations for up to 24 months for “companies that have benefited from the relief to date or that are known to be contemplating relocation to the UK”. Regarding the possible merits of the UK putting on a permanent footing a short-term relief from applying UK GAAP or IAS for companies changing their domicile, Respondent E did not favour such a move in principle but would not oppose it providing “(a) HM Treasury advise that there is compelling evidence that it would be likely to bring tangible economic benefits to the UK by easing corporate relocations and (b) the concession is universal for all companies registering in the UK from overseas, with no restrictions in terms of the GAAP they are currently following or the jurisdiction from which they are relocating”.

Approach in other European Economic Area Countries to third country GAAPs

57. The review considered the approach to the filing of local GAAPs by other European countries. A report[21] produced by PwC in 2014 reveals that two other European countries permit listed entities located outside of the EU to file group accounts according to their local GAAP (including in all cases US GAAP) - Ireland and Switzerland. Ireland’s arrangements will expire in 2020. Switzerland’s arrangements appear to be permanent.

Section 5: <u>Future of the Regulations</u>

58. In summary PIR has not revealed any evidence on the impact the Regulations have had that significantly challenges our view of the costs and benefits of the Regulations, and the conclusions of the original Impact Assessment appear to be broadly correct. Evidence drawn from the original Impact Assessment and responses to the PIR indicates that there are three credible options for the future of the Regulations.

- **Option 1** - Do nothing – let the Regulations expire in December 2015 as intended.

[21] PWC (2014), IFRS adoption by country, http://www.pwc.com/us/en/issues/ifrs-reporting/publications/ifrs-status-country.jhtml

- **Option 2 -** Extend the Regulations to cover financial reporting years indefinitely beyond January 2015.

- **Option 3 - Recommended option**: Introduce a rolling transition period (up to four years) for parent companies that re-locate to the UK from USA or Japan to convert to preparing accounts to IAS or UK GAAP.

59. Below we present a more detailed description of these options and their implications. These options for remaking the Regulations will be subject to fuller analysis in a future Impact Assessment.

Option 1: Do nothing – let the Regulations expire in December 2015.

60. Option 1 would be consistent with the original intention of the Regulations. The Regulations were introduced as a temporary measure to enable transition to UK GAAP or IAS. This was reflected in the corresponding assumptions in the Impact Assessment. Furthermore there is some evidence that companies have used the provisions to postpone rather than to complete transition.

61. However, an accountancy stakeholder commented that they were aware of "at least five separate clients" where the expiry of the Regulations had been a key factor in their decisions not to incorporate in the UK. Respondent B also regarded the Regulations as an important factor in their future plans for domicile.

Option 2: Extend the Regulations to cover financial reporting years indefinitely beyond January 2015.

62. Option 2 would mean that companies listed on stock exchanges in the USA or Japan would not have to make the transition to UK GAAP or IAS for an indefinite period and would be able to continue to use US or Japanese GAAPs. This option is likely to be popular with companies that have benefited from the Regulations but not yet begun/completed the transition process, as well as organisations with clients that are considering domiciling in the UK. It would avoid placing us at any competitive disadvantage with Ireland and Switzerland that permit filing in other country GAAPs. However this option carries the greatest risk of harming the integrity of the UK accounting regime, as it could allow some companies to avoid conversion to UK GAAP or IAS for an extended, or even an indefinite period. Over time the number of companies not following UK GAAP or IAS could grow to make up a more significant proportion of UK listed companies.

63. An indefinite extension of the provisions in the Regulations would also not be consistent with the UK's support for International Accounting Standards (a view raised in responses to the PIR by an accountancy stakeholder). International Accounting Standards can reduce costs through greater transparency and consistency across borders. 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 UK companies adopting the same standards as existing UK companies, rather than a means of permanently avoiding the costs of transition. Companies not converting their accounting standards for an extended or indefinite period would reduce the comparability of financial accounts for users of the accounts in the UK (i.e. individuals and businesses who invest in, trade with, and lend to companies) thus reducing their ability to make decisions based on the best information.

64. It is true that where companies are obliged to prepare accounts according to multiple accounting frameworks, this will inevitably increase a company's costs. However as a result of work by the FASB and the IASB many of the major differences between US GAAP and IAS have been resolved (see annex for further detail on the US accounting framework).

Option 3 - Recommended option: **Introduce a rolling transition period (up to four years) for parent companies that re-locate to the UK from USA or Japan to convert to preparing accounts to IAS or UK GAAP.**

65. Under Option 3 parent companies whose securities are registered in the USA or admitted to trading on Japanese stock and security exchanges would have a maximum four year transitional period from incorporation in the UK to prepare their group accounts in line with UK GAAP or IAS. Option 3 would offer cost savings to business compared to Option 1 (Do Nothing) without conflicting with our overall support for international accounting standards, or posing a risk to the integrity of the UK's accounting framework (by allowing companies to use different accounting standards for an extended or indefinite period). To the extent that the 3 year transition period encourages more companies to re-domicile in the UK, and to the extent that this gives rise to economic benefits, Option 3 could benefit the UK economy. Option 3 would also confirm that these companies are expected to complete the transition to UK GAAP or IAS within a reasonable timeframe. It would also reduce any competitive disadvantage with countries (Switzerland and Ireland) that permit filing under equivalent GAAPs.

66. It should also be noted that the new guidance to UK GAAP, FRS 102[22] enables preparers of accounts to look to other GAAPs. So if there is accounting that is not covered by FRS 102 a preparer of accounts would be allowed to consider (for instance) US GAAP accounting policies and, as long as they otherwise follow the principles of UK GAAP, these could be applied in appropriate circumstances.

[22] FRS 102, https://frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-appli-(1).pdf

Section 6: Conclusions

67. The evidence gathered through this PIR suggests that the analysis of the original Impact Assessment was broadly correct in identifying the costs and benefits of the Regulations. One additional benefit (saving of money spent on auditing two sets of accounts under different accounting principles) and no additional costs were identified. However the small number of quantitative responses received tentatively suggests: 1) Familiarisation costs may have been higher than anticipated; and 2) administrative and financial savings to business as a result of the Regulations differ on a company by company basis – with some companies suggesting the benefits arising to them were lower, and two others suggesting they were higher than anticipated in the original Impact Assessment. No significant unintended consequences (e.g. a reduction in the integrity of the UK accounting framework) were identified by this PIR. However, there was some evidence to suggest that some companies had not used the extended transition period as intended, and had postponed rather than prepared for conversion to UK GAAP or IAS.

68. The Regulations have achieved their objectives to the extent that at least three companies are known to have used the flexibility offered by the Regulations and at least one company considered the existence of the Regulations as an important factor in their decision to domicile in the UK. 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 framework more generally. However, we have evidence that some companies have used the transition period to postpone conversion of accounting practices, rather than reduce the costs associated with conversion, as originally intended by the Regulations.

69. After the review of the original analysis and consideration of stakeholder views and international evidence it is proposed to revise and re-make the Regulations with a maximum transition period of four years from date of incorporation for parent companies domiciling in the UK whose securities are registered in the USA or admitted to trading on Japanese stock and security exchanges. This will give parent companies a longer period to prepare group accounts according to UK GAAP or IAS and make corresponding savings (Option 3). It will also protect the integrity and consistency of the UK's financial reporting framework whilst producing administrative savings for affected businesses. To the extent that the extended transition period may encourage more companies to re-domicile in the UK, and to the extent that this gives rise to economic benefits (as outlined in the original Impact Assessment), Option 3 could benefit the UK economy.

70. Option 3 will not prevent companies from countries whose accounting standards are recognised as equivalent from facing the cost of preparing dual accounts

after the four year transition period. Nor will it completely satisfy those who feel that the UK's arrangements for filing accounts prepared according to other country's GAAPs should be identical to that of Ireland.

Annex

Accounting Framework in the United States

71. The Securities and Exchange Commission (SEC) released its proposed written roadmap in November 2008 and reaffirmed its commitment to one global set of accounting standards in a statement released in February 2010 (i.e. IAS). The SEC also issued a work plan with six areas that need to be addressed to enable the SEC to make a decision on whether to incorporate IAS in the US public reporting structure. In July 2012, the SEC staff issued its final report regarding the Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for US Issuers. The Staff report did not include a final policy decision as to whether IAS should be incorporated into the US financial reporting system, or how such incorporation should occur. Nor does the report provide an answer to the threshold question of whether a transition to IAS is in the best interests of US capital markets and US investors.

72. Nonetheless the USA still shows willingness to stay involved in global standard setting through regulatory activities and International Accounting Standards Board interaction. For example, the SEC issued its draft strategic plan for 2014–2018, which states that one of its initiatives is to work to promote high quality, financial reporting worldwide, and consider, among other things, whether a single set of high-quality, global accounting standards is achievable. However, it does not mention IAS specifically.

73. Additionally, while the Financial Accounting Standards Board (FASB) and IASB issued converged revenue recognition guidance, convergence is no longer likely for the other convergence projects: financial instruments, insurance and leases. No new joint projects are currently being contemplated, and it is expected that the boards will shift attention to their individual agendas. In summary US GAAP remain the generally accepted accounting principles adopted by the SEC. While the SEC has stated that it intends to move from US GAAP to the (IAS), the latter differ considerably from GAAP and progress is still slow and uncertain.

Accounting Framework in Japan

74. The use of IAS is not permitted for standalone/separate accounts of listed filings. Listed companies which meet certain requirements ("Specified Companies") are permitted to use IAS for their consolidated accounts ending on or after 2010. In 2013 a Business Accounting Council ("BAC" an advisory body to the FSA) recommended a number of measures to promote further use of IAS in Japan, including an expansion of "Specified Companies". Efforts to promote the use of IAS in Japan continue.

Accounting Framework in Switzerland

75. Under the Swiss Code of Obligation, Switzerland has a transition period of two years for standalone accounts and three years for consolidated accounts. Accounting requirements depend on the size of an entity rather than on its legal form. Entities exceeding a certain size are required to prepare consolidated accounts for which IAS may be used but there is no requirement for using any specific accounting principles for consolidated accounts. However, under certain conditions – mainly to protect minority shareholders – non-listed entities are permitted to use an accounting framework as approved by the Government (IAS as published by the International Accounting Standards Board, IAS for SMEs, US GAAP, Swiss GAAP FER or IPSAS). The Swiss provisions appear to be permanent.

Accounting Framework in Ireland

76. US GAAP is available for certain Irish incorporated companies that are registered with the Securities and Exchange Commission in the USA. These companies are permitted by Irish company law to apply US GAAP subject to conditions. As noted earlier this provision will expire in 2020.