
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations implement in part Directive 2006/46 of the European Parliament and the Council of 14th June 2006 amending Council Directives [78/660/EEC](#) on the annual accounts of certain types of companies, [83/349/EEC](#) on consolidated accounts, [86/635/EEC](#) on the annual accounts and consolidated accounts of banks and other financial institutions and [91/674/EEC](#) on the annual accounts and consolidated accounts of insurance undertakings (OJ L 224, 16.8.2006, pages 1 to 7). The Directive is also to be implemented by the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and by the Financial Services Authority using powers under the Financial Services and Markets Act 2000 (c.8).

Regulations 3 to 5 implement Article 1, paragraphs 1 to 4 of Directive 2006/46. They raise the financial thresholds contained in sections 382, 383, 465, 466, 477 and 479 of the 2006 Act which determine when a company or group qualifies as small or medium-sized for the purposes of certain accounting and reporting exemptions, and for exemption from audit.

For small companies, the turnover limit is increased from £5.6 million to £6.5 million, and the balance sheet total from £2.8 million to £3.26 million. For small groups, the aggregate turnover limit is increased from £5.6 million net (or £6.72 million gross) to £6.5 million net (or £7.8 million gross), and the aggregate balance sheet total from £2.8 million net (or £3.36 million gross) to £3.26 million net (or £3.9 million gross).

For medium-sized companies, the turnover limit is increased from £22.8 million to £25.9 million, and the balance sheet total from £11.4 million to £12.9 million. For medium-sized groups, the aggregate turnover limit is increased from £22.8 million net (or £27.36 million gross) to £25.9 million net (or £31.1 million gross), and the aggregate balance sheet total from £11.4 million net (or £13.68 million gross) to £12.9 million net (or £15.5 million gross).

Regulations 6 and 7 amend various provisions in order to reinstate certain exemptions relating to the directors' report in section 247A(1A) of the Companies Act 1985 (c.6) for small and medium-sized companies that would otherwise not be able to take advantage of them only because they are members of ineligible groups.

Regulation 8 implements Articles 1.6 first point and 2.1 first point of Directive 2006/46. It inserts a new section 410A into the 2006 Act requiring companies to make certain disclosures about off-balance sheet arrangements in the notes to their accounts. Section 410A(4) provides that medium-sized companies do not have to disclose the financial impact of off-balance sheet arrangements.

Regulations 9 to 13 make minor amendments.

The Regulations come into force on 6th April 2008 and apply to financial years beginning on or after that date. Regulation 2(3) makes transitional provision to enable companies to take early advantage of the new financial thresholds for small and medium-sized companies.

A transposition note has been prepared which sets out how Directive 2006/46 is to be transposed into UK law. An Impact Assessment of the effect that the implementation of Directive 2006/46 will have on the costs of business, charities or voluntary bodies has also been prepared. Both are available from the Department for Business, Enterprise and Regulatory Reform, Corporate Law and Governance Directorate, 1 Victoria Street, London SW1. They are also available electronically at www.berr.gov.uk. Copies have also been placed in the libraries of both Houses of Parliament.

Draft Legislation: This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument: The Companies Act 2006 (Amendment) (Accounts and Reports) Regulations 2008 No. 393

Otherwise, an Impact Assessment has not been produced for these Regulations as they have only a negligible impact on the costs of business, charities or voluntary bodies.