EXPLANATORY MEMORANDUM TO THE COMPANIES (SUMMARY FINANCIAL STATEMENT) (AMENDMENT) REGULATIONS 2005

2005 No.2281

1. This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

2. DESCRIPTION

2.1 This statutory instrument amends the provisions on summary financial statements (SFS) contained in the Companies (Summary Financial Statement) Regulations 1995[1] ("the 1995 Regulations") to –

- permit all companies that have had their accounts audited to send out an SFS (rather than just listed companies as at present),
- ensure that companies using International Accounting Standards (IAS) will be able prepare and send out an SFS, and
- remove the requirement for accounts to have a summarised directors' report in the SFS.

3. MATTERS OF SPECIAL INTEREST TO THE JOINT COMMITTEE ON STATUTORY INSTRUMENTS

3.1 None

4. LEGISLATIVE BACKGROUND

Extension of SFS to all companies

4.1 All companies are required to prepare accounts and reports and to file these with the Registrar of Companies. Copies of the company's full financial statements must be sent to entitled persons. Entitled persons are the company's members, debenture holders, and any others who receive notice of company general meetings.

4.2 Currently, if the shares or debentures of a public company, or any class of the shares or debentures of a public company, are listed, the company may send an SFS to entitled persons instead of the full accounts. The company must first ascertain that the entitled person wishes to receive an SFS. The entitled person remains entitled to request a copy of the full financial statements even if they have chosen to receive the SFS.

4.3 The SFS includes a summary profit and loss account and balance sheet and, for quoted companies, a summary directors' remuneration report. The SFS must contain a

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[1] SI 1995/2092, as amended by SI 2000/3373 and SI 2002/1780

statement by the company's auditors that the SFS is consistent with the full accounts and reports, and that it complies with the legislative requirements.

4.4 The requirements for SFS are set out in section 251 of the Companies Act 1985 ("the 1985 Act") and in the 1995 Regulations. Section 251 was recently amended by the 2004 Regulations referred to in the next paragraph to permit any company (whether or not listed) specified in regulations made by the Secretary of State to send out SFS, subject to the conditions in those regulations. These Regulations amend the 1995 Regulations to extend the option to issue SFS to all companies whose accounts have been audited.

IAS

4.5 The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004[2] ("the 2004 Regulations") amend the accounting requirements in the 1985 Act (Part 7 and the related Schedules) to ensure the effective application in Great Britain of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[3] (the "IAS Regulation"), and implement Member State options in that Regulation.

4.6 The IAS Regulation requires companies governed by the law of a Member State, whose securities are admitted to trading on a regulated market in any Member State in the EU ("publicly traded companies"), to prepare their consolidated accounts on the basis of accounting standards issued by the International Accounting Standards Board that are adopted by the European Commission.

4.7 The IAS Regulation also permits Member States to extend use of IAS. The 2004 Regulations extend use of IAS to the individual accounts of publicly traded companies and to the individual and consolidated accounts of other companies on a permissive basis

4.8 Companies that prepare their accounts under IAS will not follow the accounting provisions of the 1985 Act. The current legal requirements for SFS include summary profit and loss account and balance sheet formats for an SFS based on the various formats for full accounts in the accounts Schedules to the 1985 Act. Because those full formats will not apply to IAS accounts, the prescribed summary formats will in many instances be incompatible with full IAS accounts. These Regulations set out an SFS regime based on IAS accounts.

Removing the requirements for companies to summarise the directors' report in SFS

4.9 The Companies Act 1985 (Operating and Financial Review and Directors' Report etc) Regulations 2005 ("the OFR Regulations")[1] require quoted companies to produce an OFR for financial years commencing on or after 1 April 2005. The OFR may contain information that would previously have been given in the directors' report (in which case it need not be duplicated in the directors' report). The OFR Regulations also introduced a requirement for large and medium sized companies to include an enhanced fair review in their directors' report.

[2] SI 2004/2947
[3] OJ L243 of 11.9.2002, Page 1
[1] S.I. 2005/1011.

4.10 Section 251 of the 1985 Act was amended by the OFR Regulations so that an SFS no longer has to include a summary directors' report. These Regulations amend the1995 Regulations to remove the references to directors' reports.

Scrutiny

4.11 **IAS Regulation –** DTI Explanatory Memorandum 6365/01 was submitted on 16 March 2001. The Commons European Scrutiny Committee considered it not legally or politically important and cleared it (Report No. 1, Item 22162, Session 00/01). The Lords Select Committee on the EU did not report on it (Progress of Scrutiny 13.04.01, Session 00/01).

5. EXTENT

5.1 This instrument applies to Great Britain.

6. EUROPEAN CONVENTION ON HUMAN RIGHTS

6.1 No statement is required..

7. POLICY BACKGROUND

SFS

7.1 Following extensive consultation, the Final Report of the independent Company Law Review (*Modern Company Law for a Competitive Economy, July 2001, URN 01/942)* recommended that the option to prepare and distribute an SFS be extended to all classes of company. It saw no reason to prohibit the availability of SFS if a company wanted to offer them, and an entitled person was content to receive them. The Government considers that the option to prepare and distribute an SFS will be of significant benefit to some non-listed companies, and has therefore accepted the recommendation.

7.2 For companies with large numbers of entitled persons, the cost of preparing an SFS is likely to be more than offset by the cost saving in the printing and distribution of fewer copies of the full accounts and reports. Many entitled persons find the SFS more suitable to their needs than the full accounts.

7.3 The option to issue SFS is only being extended to companies whose full accounts have been audited and where the auditor expresses his opinion as to the consistency of the SFS with the audited full accounts and as to its proper preparation. This is to minimise the risk that any private companies who take advantage of the audit exemption could abuse the provisions in order to give shareholders a defective SFS or fail to make entitled persons aware of the limitations of the SFS and of their right to receive the full report and accounts.

7.4 The Government considered that it was inappropriate for legislation to set out detailed provisions for the summary OFRs and fair reviews. The content of those reviews (which are essentially narrative in nature) will vary greatly depending on the company's circumstances. It was considered preferable to leave it to companies to decide whether or not to include information from their directors' reports or OFRs in SFS.

IAS

7.5 IAS sets out certain requirements for the structure and content of financial statements, mainly within IAS 1 *Presentation of Financial Statements.* However, unlike the 1985 Act, these requirements do not include set formats for the income statement and balance sheet. Therefore, if the regulations dealing with SFS are not updated, listed companies that currently take advantage of the SFS regime (and other companies preparing IAS accounts that may wish to do so) may be constrained or even prevented from continuing to do so.

7.6 Since IAS does not require the use of set formats, it would be inappropriate to define detailed formats for SFS on an IAS basis. However, IAS does provide a framework for the preparation of "condensed financial statements," in the context of interim financial reports (within IAS 34 *Interim Financial Reporting).* The Government considers that this framework is equally applicable for the preparation of SFS and has accordingly drawn on the same principles in these Regulations.

7.7 Not being able to continue preparing and sending SFS would impose a considerable cost burden on IAS companies. The aim of establishing an SFS regime for IAS companies is to ensure a level playing field between IAS and non-IAS companies, so IAS companies are not subject to unnecessary burdens.

Consultation

7.8 A public consultation was held on these issues in Spring 2005 *(Company Reporting: A consultation on extending use of summary financial statements and other minor changes, March 2005, URN 05/900).* Interest was largely confined to the accountancy bodies, major accountancy firms, and a few large companies. There was no media interest. Those who responded to the consultation were overwhelmingly in favour of the proposals. Companies using IAS were particularly keen to ensure that they would still have the option to issue SFS. A summary of responses can be found at www.dti.gov.uk/cld.

8. IMPACT

8.1 A Regulatory Impact Assessment is attached at Annex A.

8.2 There is no impact on the public sector as this Statutory Instrument only applies to companies.

9. CONTACT

Valerie Carpenter at the Department of Trade & Industry (telephone: 020 7215 0225 or email valerie.carpenter@dti.gsi.gov.uk) who can answer any queries regarding the instrument.

FULL AND FINAL
REGULATORY IMPACT ASSESSMENT
ON UPDATING THE SUMMARY FINANCIAL STATEMENT REGULATIONS

1. Proposal

1.1 To allow listed companies that report under International Accounting Standards (IAS) to continue to prepare and distribute Summary Financial Statements (SFS) and to extend the option to prepare and distribute SFS to all companies. This has been implemented by the Companies (Summary Financial Statement) (Amendment) Regulations 2005, which amends existing secondary legislation made pursuant to the Companies Act 1985 (the 1985 Act).

2. Purpose and intended effect

Objective

2.1 The objective of the regulations is to amend and improve on the existing SFS regime so that:

- listed companies that report under IAS can continue to benefit from cost savings in preparing and distributing SFS; and
- the option to use SFS is extended to all companies that have had their full accounts audited.

2.2 The existing secondary legislation has been amended in the following respects:

(i) The existing provisions on SFS include set formats for summary balance sheet and summary profit and loss account. The formats are based on the full accounts formats in various Schedules to the 1985 Act. Listed companies are required to use

IAS in their consolidated accounts for financial years commencing on or after 1 January 2005. IAS accounts are not subject to the 1985 Act formats. The objective of these new provisions on SFS is to ensure that listed companies using IAS in their accounts will be able to continue to take full advantage of the SFS regime. Without these amendments, such companies may no longer be able to prepare and distribute SFS because of the incompatibility of the current regulations with IAS. This would in many cases give rise to substantial additional publication and distribution costs.

(ii) Previously, only listed companies were permitted to distribute SFS as an alternative to full accounts and reports. This option has now been extended to all companies that have had their full accounts audited. This implements a recommendation of the Final Report of the independent Company Law Review (*Modern Company Law for a Competitive Economy, July 2001, URN 01/942*), which the Government has accepted. The Company Law Review found that there was no reason to deny unlisted companies the option to send SFS to willing and properly informed recipients.

The option is available only to companies whose full accounts have been audited and where the auditor expresses his opinion as to the consistency of the SFS with the audited full accounts and as to its proper preparation. This is to minimise the risk that any private companies which take advantage of the audit exemption could abuse the provisions in order to give shareholders a defective SFS or fail to make entitled persons aware of the limitations of the SFS and of their right to receive the full report and accounts.

Devolution

2.3 Company law matters relating to Scotland are reserved to the UK Parliament under the Scotland Act 1998. Those relating to Wales have not been transferred to the National Assembly for Wales under the Government of Wales Act 1998. Therefore any changes to company legislation will also apply in Scotland and Wales. Company law in Northern Ireland is a transferred matter under the Northern Ireland Act 1998. Whilst the Northern Ireland Assembly and Executive are suspended, these functions will be discharged by the Northern Ireland Departments, subject to the direction and control of the Secretary of State for Northern Ireland.

Background

<u>The SFS Regime</u>

2.4 The Companies Act 1989 introduced into the 1985 Act provisions allowing listed companies to send an SFS to assenting shareholders instead of the company's full accounts and reports. An SFS contains the key information from the company's annual accounts and is an optional, additional document. Companies must still prepare full accounts. Detailed provisions, including requirements for the form and content of the SFS, are set out in secondary legislation - the Companies (Summary Financial Statement) Regulations 1995, SI 1995/2092 (the 1995 Regulations).

2.5 Previously, a listed public company was permitted by section 251 of the 1985 Act and by the 1995 Regulations to prepare an SFS, which may be sent to shareholders instead of the full annual accounts and reports. An SFS can be sent only to shareholders who have indicated that they do not wish to receive full accounts and reports (although any shareholder remains entitled to request a copy of the full accounts and reports).

2.6 The SFS regime can offer significant advantages for companies, and for those members who elect to receive an SFS. For a large, complex, listed company, the full annual report (typically containing the full accounts, directors' report, directors' remuneration report and corporate governance statement) is a substantial document that can run to several hundred pages in length. The SFS regime reduces the number of such reports that the company is required to print and send. Further, although the full annual report contains important information which is relevant to many users, others find that a summary is better suited to their needs.

2.7 Following extensive consultation, the Final Report of the independent Company Law Review (*Modern Company Law for a Competitive Economy, July 2001*, URN 01/942) recommended that the option to prepare and distribute SFS be extended to all classes of company. It saw no reason to prohibit the availability of SFS if a company wanted to offer them, and an entitled person was content to receive them. The Government considers that the option to prepare and distribute SFS will be of significant benefit to some non-listed companies, and therefore accepted the recommendation.

IAS

2.8 Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards (OJ L243/1, 11 September 2002) (the IAS Regulation) requires companies governed by the law of a Member State, whose securities are admitted to trading on a regulated market in any Member State in the European Union ("publicly traded companies"), to prepare their consolidated accounts for financial years beginning on or after 1 January 2005 on the basis of accounting standards issued by the International Accounting Standards Board and adopted by the European Commission. The IAS Regulation also contains options allowing Member States to extend the use of IAS.

2.9 The Government welcomed the Regulation and strongly supports the use of IAS. For publicly traded companies, adherence to global accounting standards should help to reduce the cost of capital by making their accounts more accessible to potential investors across the EU and worldwide.

2.10 Following consultation, the Government decided that publicly traded companies should be permitted to use IAS for their individual accounts, and that all other companies (except companies which are charities) should be permitted to use IAS for their individual and/or consolidated accounts. Changes to the 1985 Act to give effect to this decision, and to ensure that IAS accounts could be accommodated within the statutory framework, were made by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004/2947) and have effect for financial years beginning on or after 1 January 2005. The changes also, as far as possible, eliminated obstacles within company law to the convergence of UK accounting standards with IAS.

2.11 IAS sets out certain requirements for the structure and content of financial statements, mainly within IAS 1 *Presentation of Financial Statements.* However, unlike the 1985 Act, these requirements do not include set formats for the profit and loss account (known in IAS as an income statement) and the balance sheet. The requirements on SFS included summary formats that were based on the various formats for full accounts set out in the accounts Schedules to the 1985 Act. Because those full formats will not apply to IAS accounts, the prescribed summary formats would in many instances be incompatible with full IAS accounts.

Risk Assessment

2.12 Updating the 1995 Regulations to allow IAS companies to continue to prepare and distribute SFS is intended to address the risk of unnecessary cost burdens that would otherwise arise. If the change is not made, IAS companies which had been using SFS would have to incur the additional cost of sending full financial statements to all shareholders.

2.13 The proposal to amend the 1995 Regulations to allow all companies to distribute SFS is not addressing a particular risk**.** The majority of companies that would benefit most from the ability to distribute SFS are those that are already permitted to do so. However, there is no good reason to deny the option to other companies which may also benefit.

2.14 The majority of respondents to the consultation were in favour of restricting the option to issue SFS to companies that have had their accounts audited. However, some felt that the restriction was unnecessary, commenting that small companies could equally well send defective full accounts to shareholders and shareholders should be allowed to choose whether they want to receive SFS based on unaudited accounts. However, most recognised that this was a theoretical issue as it was very unlikely that a company small enough to benefit from the audit exemption would have enough shareholders to benefit from the SFS option.

2.15 As stated in the consultation document, only making the option to use SFS available to companies whose full accounts have been audited is intended to minimise the risk that any private companies who take advantage of the audit exemption could abuse the provisions in order to give shareholders a defective SFS. The SFS is limited, giving only headline information, and the shareholder has to take more on trust. A shareholder could of course be sent defective unaudited full accounts, but at least the full accounts would give the shareholder more information on which to make a judgement and challenge if necessary. One respondent also made the point that it would be impractical to require an auditor to provide a “properly prepared” opinion regarding the SFS based on unaudited accounts.

3. Options

3.1 Four main options were considered.

Option 1: Do nothing

3.2 This option would mean that companies that must switch to IAS and have been preparing SFS would no longer be able to do so. They would have to send full accounts to all their shareholders, at additional cost to the company and with no benefit to anyone. Those shareholders who prefer to receive SFS would be denied this option.

3.3 It would also mean that unlisted companies would be denied the option to use SFS.

Option 2: Make only the amendment to ensure that the SFS regime accommodates IAS accounts

3.4 This option would mean that companies using IAS would not incur the additional cost of having to distribute full accounts to all shareholders.

3.5 However, this option would not extend a potential benefit to other companies.

Option 3: Make only the amendment to extend the use of SFS to all companies

3.6 This option would extend the potential benefit of being able to prepare and distribute SFS to companies not currently able to do this. It could be argued that this option would deny information to shareholders because they would no longer get the full accounts and reports. However, companies must ensure that shareholders are content to receive SFS rather than full accounts, and shareholders are entitled to request full accounts and reports even if they have agreed to receive SFS. The DTI's discussions with listed companies indicate that, when offered the choice, in excess of 90% of shareholders elect to choose SFS in place of the full accounts and reports.

3.7 However, this option would mean that companies using IAS could not continue to benefit from being able to prepare and distribute SFS.

Option 4: Combine options 2 and 3

3.8 This would meet the objective of updating and improving the reporting framework, and would provide the maximum benefit to companies.

4. Benefits

Option 1: Do nothing

4.1 There would be no benefits arising from this option.

Option 2: Make only the amendment to ensure that the SFS regime accommodates IAS accounts

4.2 This option would ensure that listed companies that currently take advantage of the option to prepare and distribute SFS can continue to do so (a search on the Regulatory News Service indicates that 84 companies produced SFS in the past year). It would therefore preserve the status quo and avoid the additional costs that would result from doing nothing (see paragraph 5.1 regarding costs).

Option 3: Make only the amendment to extend the use of SFS to all companies

4.3 Extending the use of SFS to all companies that have had their full accounts audited would enable more companies to benefit from potential cost savings from sending SFS in place of full reports and accounts. Savings can be made where the cost of preparing an SFS and of ascertaining members' wishes and administering the SFS process, are more than offset by the savings from printing and sending SFS in place of full accounts. This will normally be in situations where large numbers of shareholders and other persons are entitled to the full accounts and reports.

4.4 There are two groups of companies most likely to benefit. At one end of the scale, a number of companies whose shares are traded on the Alternative Investment Market (AIM) could benefit from the extended SFS option. Discussions with AIM indicate that cost savings could be in the order of £2,000 to £6,000 per company per year. If 10% of the approximately 1000 AIM companies took up the option to distribute SFS, there would be a total saving of £600,000 to £1.8m per year for this sector.

4.5 At the other end of the scale, a few large mutual companies that typically have thousands of members could benefit to a greater degree. Discussions with one such company prior to consultation indicated an estimated cost saving of between £175,000 and £670,000 per year. If only two such companies took up the option, there would be a total saving of between £350,000 and £1.34m per year for this sector. Estimates given by respondents to the consultation fall into the lower half of the range given above.

4.6 Therefore, total cost savings may be in the order of £775,000 and £2.47m per year. Cost saving are based on reduced printing and postage costs.

Option 4: Combine options 2 and 3

4.7 This option would combine the benefits of option 3 with the avoidance of costs arising from option 2.

Business Sectors Affected

4.8 These changes will potentially affect all companies in Great Britain that have their accounts audited. There are currently approximately 2 million active companies on the register at Companies House, and about 1.4 million that have their accounts audited.

Issues of Equity and Fairness

4.9 The Government considers that the proposal will not bring disproportionate benefits or have disproportionate effect on particular groups, as they are relevant to all companies that have had their full accounts audited. Companies that do not have their accounts audited are typically small companies with few shareholders; producing an SFS would be an additional cost rather than a cost saving for these companies.

5. Costs

Compliance costs

Option 1: Do nothing

5.1 Doing nothing would impose additional costs on listed companies using IAS that would no longer be able to distribute SFS as an alternative to full accounts and reports. Of approximately 1464 listed companies, we estimate that some 6% (84) currently take advantage of the SFS option. Annual cost to those companies if they could no longer prepare and distribute SFS are estimated to average £100,000, giving a total cost of £8.4m. This is broadly in line with estimates given by respondents to the consultation, although some put the cost as high as £1m for certain companies.

Option 2: Make only the amendment to ensure that the SFS regime accommodates IAS accounts

5.2 This option would maintain the status quo so that SFS would continue to be an option for listed companies. Hence, no additional costs would be imposed.

(iii) Option 3: Make only the amendment to extend the use of SFS to all companies

5.3 No incremental costs would be imposed, as SFS would be optional for companies. They would only take up the option if it resulted in a cost saving for them. However, this option would mean that the estimated cost to IAS companies that could no longer prepare and distribute SFS (paragraph 5.1) would be incurred.

Option 4: Combine options 2 and 3

5.4 No costs would be imposed.

Other Costs

5.5 The DTI considers that these options would not impose costs on any non-business sector.

Costs for a typical business

5.6 The DTI considers that these options would not impose any costs on a typical business.

6. Consultation with small business: The Small Firm's Impact Test

6.1 It is anticipated that Option 4 would have no significant impact on small business. The amendments will not increase costs for small businesses, nor are they likely to provide benefits for most of them.

6.2 The aim of the changes is to enable more companies to benefit from potential cost savings from sending SFS to their shareholders. However, it is unlikely that small companies would wish to take advantage of this option; in view of the small number of shareholders they typically have, preparing and distributing SFS would be an additional cost rather than a cost saving. No small companies would benefit from the proposal to enable IAS companies to continue to benefit from the SFS regime, as small companies do not currently produce SFS.

6.3 On this basis, prior to public consultation we only consulted internally with the Small Business Service prior to consultation, who were content with this approach.

6.4 A number of respondents to the consultation shared the view that the changes would not affect small companies.

7. Competition Assessment

7.1 The changes have the potential to affect all companies. It is not anticipated that they will: affect some of these businesses more than others; affect market structure; change the number or size of those businesses; lead to higher start-up costs for those businesses; or lead to higher on-going costs than at present.

8. Enforcement and Sanctions

8.1 There is an existing criminal penalty in section 251(6) of the 1985 Act which provides that the company and its officers are guilty of an offence if there is a default in complying with this section or any regulations made under it. It is not proposed to change that.

9. Monitoring and Post-Implementation Review

9.1 Government officials will engage in ongoing post-implementation monitoring and dialogue with stakeholders from business and the accountancy profession to confirm that the changes have achieved their intended effect.

9.2 The Regulations affect the accounting and reporting requirements for companies. Annual accounts and reports are prepared some months after the end of the accounting and reporting period. Several annual accounting and reporting cycles will need to elapse before it becomes clear whether the changes have achieved their intended effect. Therefore, it would not be sensible to carry out a review before late 2008/early 2009. This could be done in conjunction with a review of the UK's implementation of the optional regime for use of IAS (as far as the IAS aspect of the regulations is concerned).

10. Consultation

Within Government

10.1 The proposals were discussed with officials at HM Treasury, the Financial Services Authority and the Department of Enterprise, Trade and Industry of Northern Ireland prior to public consultation.

Public Consultation

10.2 The intention to extend the SFS regime to accommodate IAS accounts was signalled in the joint DTI/HM Treasury Consultation document *Modernisation of Accounting Directives/IAS Infrastructure*, (March 2004, URN 04/733). Several respondents to that consultation welcomed this and urged the Government to bring forward this proposal. The approach being proposed to the IAS issue has been discussed with stakeholders from business and the accountancy profession at various round-table events.

10.3 Prior to publication of that consultation document, the Government had already consulted widely on the extension of the SFS regime as part of the *Modernising Company Law* White Paper, published in July 2002 (Cm 5553). The policy had been developed previously as part of the wide-ranging review of company law, and was twice subject to consultation during that review. Responses to those consultations have demonstrated support for the extension. A breakdown of the responses received to the White Paper is available from the Department's website (www.dti.gov.uk/cld/modern/index.htm).

10.4 On 17 March 2005 the Department of Trade and Industry published a consultation document on the proposed changes to the SFS regime. The consultation was announced by way of a press notice announcing wider company law reforms. Notice of the consultation was sent to approximately 1200 companies, professional bodies, representative organisations, and individuals. The consultation document was available to download from the Department's website (http://www.dti.gov.uk/consultations), and photocopies were provided to those without internet access. The deadline for comments was 10 June 2005.

10.5 Twenty-five responses were received. The majority of respondents were in favour of the proposals in Option 4, with particularly strong support for the proposal for an SFS regime for IAS companies. Given this support, no changes were made to the policy as a result of the consultation. However, suggested drafting amendments were incorporated where these corrected inaccuracies or improved the clarity of the regulations.

11. Implementation Plan

11.1 The Regulations will be laid in early August and will come into force on 1 October 2005, the next available common commencement date.

11.2 Guidance on the Regulations will be available on the DTI website when the Regulations are laid (www.dti.gov.uk/cld). It will be incorporated in *"Guidance for British Companies on Changes to the Accounting and Reporting Provisions of the Companies Act 1985"*, which was published in October 2004 to accompany the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004/2947). The new sections of the guidance will be flagged up so that users can easily identify them.

11.3 The usual three month period between regulations being made (and guidance being published) and coming into force has been shortened in this case because these Regulations are largely facilitative, and therefore do not have an immediate impact on companies.

12. Summary and Recommendation

12.1 The table below shows a summary of the costs and benefits of the proposal.

Option	Total cost per annum	Total benefit per annum
1. Do nothing	Costs of £8.4m per annum would be imposed as a result of listed companies being prevented from using SFS.	None
2. Make only the amendment to ensure that the SFS regime accommodates IAS accounts	None	No benefits (status quo maintained) but costs of Option 1 are avoided
3. Make only the amendment to extend the use of SFS to all companies	Costs of £8.4m per annum would be imposed as a result of listed companies being prevented from using SFS.	Potential benefit of between £775,000 and £2.47m to companies now able to use SFS.
4. Combine option 2 and 3	None	Costs of Option 1 are avoided. Potential benefit of between £775,000 and £2.47m to companies now able to use SFS.

12.2 The Government has implemented Option 4. It is the only option to combine maximum benefit for companies with no cost burden. It ensures that listed companies preparing IAS accounts can continue to take advantage of SFS. It also makes the potential benefits of preparing and distributing SFS available to unlisted companies where their own circumstances are such that SFS is an attractive option.

13. Declaration

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

SIGNED ………………………………………..

DATED ………………………………………..

GERRY SUTCLIFFE, PARLIAMENTARY UNDER-SECRETARY OF STATE
(MINISTER FOR EMPLOYMENT RELATIONS AND CONSUMER AFFAIRS)

Any comments on this Regulatory Impact Assessment should be addressed to:

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