

# INTERNATIONAL ACCOUNTING STANDARDS: CONSULTATION ON MEMBER STATE OPTIONS

## SMALL BUSINESS SUMMARY

*What is this all about?*

A European Regulation on the Application of International Accounting Standards (IAS) has been adopted. It introduces important changes, which will directly affect the way in which certain companies across the European Union prepare their financial statements. It will require 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 on the basis of accounting standards issued by the International Accounting Standards Board (IASB). It applies from the financial years commencing 1 January 2005.

The UK was closely involved in negotiations on the Regulation. The Government welcomes its adoption and strongly supports the European move to use IASB standards.

Member States also have the option to extend the Regulation (and hence the need to comply with IAS) beyond the consolidated accounts of publicly traded companies. Each Member State may permit or require:

- publicly traded companies to prepare their individual accounts in accordance with IAS;
- some or all non-publicly traded companies to prepare their consolidated and/or individual accounts in accordance with IAS.

The Government is consulting on whether to extend the Regulation to other companies, and if so which companies. It does not yet have a preferred option.

### *Why is this important?*

For those UK companies affected, the Regulation means they will have to comply with accounting standards issued by the IASB, instead of much of the Companies Act 1985 and the domestic accounting standards issued by the Accounting Standards Board (ASB). Also, IASB standards will have direct legal force.

This consultation is separate from the general consultation being carried out in parallel on reform of company law in Great Britain (“Modernising Company Law”, Cm 5553-1, published 16 July 2002). However, the two are closely linked in some respects, since any extension of the Regulation could have implications for the White Paper’s proposals on a new institutional framework for domestic accounting requirements.

### *What might it mean for me?*

One option is to extend the Regulation to all companies, including small non-publicly traded ones.

If you do business or seek capital across borders, or hope to do so, compliance with IAS may make your accounts more comparable with those of your competitors. This comparability would assist shareholders, analysts and other users of accounts, and help to maintain the attractiveness of UK companies to international investors.

If you want to expand and obtain admission to trading on a regulated market, you would not need to change your past accounts to IAS to provide the necessary historical three year record.

There will be a cost in complying with the Regulation, for example, one-off conversion costs to the new system. This could be a particular burden on small companies because IASB standards are primarily focused on the reporting requirements of large publicly traded companies which are involved in complex transactions. Some standards are irrelevant to small companies as they deal with transactions that small companies do not conduct, or require small companies to account for certain transactions in overly complex ways. As yet, there is no international equivalent to the ASB’s Financial Reporting Standard for Smaller Entities (FRSSE), which brings together in one place, with some simplifications, the accounting requirements from each of the domestic standards as they apply to small companies.

However, the application of IAS to even the smallest companies could be less burdensome than it first appears. The ASB has a programme of converging domestic and IASB standards. In the future, UK standards are likely to be very similar to IASB standards in many respects, but there will also be differences. In particular, ASB standards intended for use by non-publicly traded companies will sometimes regulate with a lighter touch than the equivalent IASB standards. If the degree of convergence was high, the Regulation could be extended with little extra cost or potential confusion, whereas if the degree of convergence was low, the cost of extension would be higher.

The IASB has recently added the development of an international standard for small entities to its workplan. If there was a demand for the Regulation to be extended to the smallest companies, it may be that some sort of transitional arrangement for a domestic FRSSE based on IAS could be put in place by the ASB until an international standard for small entities was available.

*What are you asking me to do?*

The Government is asking for views on:

- whether the Regulation should be extended to other companies;
- if so, to which companies;
- if so, should use of IAS be voluntary or compulsory;
- the possible costs and benefits of extending, or of not extending, the Regulation to your company (initial estimates suggest a cost of £720 to £1400 per small company, or £672m to £1680m for the sector as a whole, most of which are initial rather than on-going costs).

*Where can I get further information?*

The consultation document “International Accounting Standards” gives further information on the background to the Regulation and related issues. It also sets out the pros and cons of the main options for extending the Regulation, and of not doing so. A draft Regulatory Impact Assessment (which will be revised in light of comments) accompanies the consultation document. Copies can be obtained by calling 020 7215 0232 or from [www.dti.gov.uk/consultations](http://www.dti.gov.uk/consultations).

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